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# RAILROAD RETIREMENT BOARD

## FINANCIAL STATEMENTS



FISCAL YEAR 1998

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## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>MISSION STATEMENT</b>	1
<b>EXECUTIVE SUMMARY</b>	2
<b>INTRODUCTION</b>	3
<b>PERFORMANCE INDICATORS</b>	8
<b>FINANCIAL HIGHLIGHTS</b>	17
<b>AUDITORS' REPORTS</b>	
Report on Financial Statements	29
Report on Internal Control	31
Report on Compliance with Laws and Regulations	35
<b>FINANCIAL STATEMENTS</b>	
Consolidated Balance Sheet	38
Consolidated Statement of Net Cost	39
Consolidated Statement of Changes in Net Position	40
Combined Statement of Budgetary Resources	41
Consolidated Statement of Financing	42
Statement of Custodial Activity	43
Notes to Financial Statements	44
<b>SUPPLEMENTARY SCHEDULES</b>	
<b>Railroad Retirement Program</b>	
Combining Balance Sheet	58
Combining Statement of Net Cost	59
Combining Statement of Changes in Net Position	60
<b>Railroad Unemployment And Sickness Insurance Program</b>	
Combining Balance Sheet	61
Combining Statement of Net Cost	62
Combining Statement of Changes in Net Position	63
<b>Deposit and Other Funds</b>	
Combining Balance Sheet	64
Combining Statement of Net Cost	65
Combining Statement of Changes in Net Position	66
<b>Consolidating Statements</b>	
Consolidating Balance Sheet	67
Consolidating Statement of Net Cost	69
Consolidating Statement of Changes in Net Position	70
<b>Consolidated Schedule of Salaries and Expenses, and     Benefit Payments - RRB</b>	71

## **ABBREVIATIONS**

<b>CSRS</b>	Civil Service Retirement System
<b>DCIA</b>	Debt Collection Improvement Act of 1996
<b>EFTPS</b>	Electronic Funds Transfer Payment System
<b>ERISA</b>	Employee Retirement Income Security Act
<b>FASAB</b>	Federal Accounting Standards Advisory Board
<b>FERS</b>	Federal Employees Retirement System
<b>FHI</b>	Federal Hospital Insurance
<b>FI</b>	Financial Interchange
<b>FMFIA</b>	Federal Managers' Financial Integrity Act
<b>FY</b>	Fiscal Year
<b>FOASI/DI</b>	Federal Old-Age and Survivors Insurance/Disability Insurance
<b>GAO</b>	General Accounting Office
<b>HCFA</b>	Health Care Financing Administration
<b>IRS</b>	Internal Revenue Service
<b>IVR</b>	Interactive Voice Response
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OPM</b>	Office of Personnel Management
<b>RR</b>	Railroad Retirement
<b>RRB</b>	Railroad Retirement Board
<b>RRS</b>	Railroad Retirement Supplemental
<b>RUI</b>	Railroad Unemployment Insurance
<b>RUSI</b>	Railroad Unemployment and Sickness Insurance
<b>SFFAS</b>	Statement of Federal Financial Accounting Standards
<b>SI</b>	Sickness Insurance
<b>SSA</b>	Social Security Administration

<b>SSEB</b>	Social Security Equivalent Benefit
<b>SSN</b>	Social Security Number
<b>TOP</b>	Treasury Offset Program
<b>Treasury</b>	Department of the Treasury
<b>TSP</b>	Thrift Savings Plan
<b>UI</b>	Unemployment Insurance



## **RAILROAD RETIREMENT BOARD**

### **Mission Statement**

**The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.**

## EXECUTIVE SUMMARY

The total net position (accrual basis) for the Railroad Retirement Board (RRB) trust funds and accounts increased by \$1,173.6 million in fiscal year (FY) 1998. Snapshots of the net position, financing sources, benefit payments, and investment earnings (before elimination of interfund transactions) for the RRB accounts are shown below. All dollar amounts are in millions.

	<u>1998</u>	<u>1997</u>
<b>NET POSITION AT SEPTEMBER 30,</b>		
Social Security Equivalent Benefit Account	\$1,786.5	\$1,580.3
Railroad Retirement Account	14,609.5	13,696.5
Railroad Retirement Supplemental Account	44.0	0.8
Railroad Retirement Administration Fund	11.5	16.6
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	90.6	75.7
Administrative Expenses	11.9	9.3
Limitation on the Office of the Inspector General	3.5	4.0
Dual Benefits Payments Account	26.8	27.0
Special Management Improvement Fund	0.1	0.2
Federal Payments to the Railroad Retirement Accounts	0.5	0.9
<b>Total</b>	<b><u>\$16,584.9</u></b>	<b><u>\$15,411.3</u></b>

<b>FINANCING SOURCES FOR FISCAL YEAR</b>		
Social Security Equivalent Benefit Account	\$5,551.2	\$4,569.9
Railroad Retirement Account	3,789.5	4,248.3
Railroad Retirement Supplemental Account	121.6	97.3
Railroad Retirement Administration Fund	92.8	94.6
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	74.1	19.7
Administrative Expenses	2.6	(0.1)
Limitation on the Office of the Inspector General	5.2	5.7
Dual Benefits Payments Account	200.9	216.4
Special Management Improvement Fund	(0.1)	(0.1)
Federal Payments to the Railroad Retirement Accounts 1/	254.1	3,422.2
<b>Total</b>	<b><u>\$10,091.9</u></b>	<b><u>\$12,673.9</u></b>

<b>BENEFITS PAYMENTS FOR FISCAL YEAR 2/</b>		
Social Security Equivalent Benefit Account	\$5,101.1	\$5,016.2
Railroad Retirement Account	2,876.6	2,903.7
Railroad Retirement Supplemental Account	78.3	82.1
Railroad Unemployment Insurance Trust Fund - Benefit Payments		
Unemployment Insurance	25.8	35.8
Sickness Insurance	33.4	36.3
Dual Benefits Payments Account	200.9	216.4
<b>Total</b>	<b><u>\$8,316.1</u></b>	<b><u>\$8,290.5</u></b>

	<u>1998</u>	<u>1997</u>
	<u>Average</u>	<u>Average</u>
<b>EARNINGS ON INVESTMENTS DURING FISCAL YEAR 3/</b>	<b>Yield</b>	<b>Yield</b>
Social Security Equivalent Benefit Account	5.71%	6.39%
Railroad Retirement Account	6.38%	6.78%
Railroad Retirement Supplemental Account	5.71%	6.38%
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	6.78%	6.80%
Administrative expenses	6.78%	6.80%
<b>Total</b>	<b><u>\$989.3</u></b>	<b><u>\$999.1</u></b>

1/ - Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated financial statements.

2/ - Net of recoveries and excludes SSA benefits payments of \$1,124.3 million.

3/ - Yield amounts and percentages represent interest earned and accrued on the book value of securities and exclude changes in market values.

## **INTRODUCTION**

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal Government. The RRB's primary function is to administer comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts. These programs provide income protection during old age and in the event of disability, death or temporary unemployment or sickness. In connection with the retirement-survivor program, the RRB has administrative responsibilities under the Social Security Act for certain benefit payments and railroad workers' Medicare coverage.

During fiscal year 1998 (ended September 30, 1998), the RRB incurred \$8.3 billion, net of recoveries, in retirement and survivor benefits. Unemployment and sickness insurance benefit payments totaled \$59.2 million in fiscal year 1998 net of recoveries. At the end of the fiscal year, there were 717,859 beneficiaries receiving retirement and survivor benefits. During fiscal year 1998, some 11,000 railroad workers received unemployment insurance benefits and almost 21,000 received sickness insurance benefits. During fiscal year 1998, the RRB also paid benefits on behalf of the Social Security Administration (SSA) (for which the RRB is reimbursed) amounting to \$1.1 billion to about 142,000 beneficiaries. At the end of fiscal year 1998, the average annuity paid to retired rail employees was about \$1,304 a month, spouse benefits averaged \$502 a month, and benefits for aged widow(er)s averaged \$768 a month. The maximum biweekly rate for unemployment and sickness insurance benefits was \$440.

## **DEVELOPMENT OF THE RAILROAD RETIREMENT AND UNEMPLOYMENT INSURANCE SYSTEMS**

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries; but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is reinsured through the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because they became unemployed while working in another State or because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the Railroad Unemployment Insurance Act in June 1938. The Act established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.



## **Railroad Retirement Act**

**Under the Railroad Retirement Act, railroad and disability annuities are paid to railroad workers with at least 10 years of service.**

**Full age annuities are payable at age 65 with 10 years of service or age 62 with 30 years' service. Reduced age annuities are payable at 62 with 10-29 years' service, or age 60 with 30 years' service. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.**

**Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and SSA. The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.**

**The primary source of income for the railroad retirement-survivor benefit program is payroll taxes paid by railroad employers and their employees. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes which are used to finance railroad retirement benefit payments over and above social security levels. Historically, railroad retirement taxes have been considerably higher than social security taxes. On top of the regular retirement taxes, railroad employers also pay a cents per work-hour tax, determined quarterly by the RRB, to finance a supplemental annuity program for career employees.**

**Other sources of income currently include the financial interchange with the social security trust funds, interest on investments, revenue resulting from Federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.**

## **Railroad Unemployment Insurance Act**

**Under the Railroad Unemployment Insurance Act, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.**

**A new unemployment-sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.**

**The railroad unemployment-sickness insurance benefit program is financed by taxes on railroad employers under an experience-rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees. The latest RRB financial report on the unemployment insurance system indicated that experience-based contribution rates will keep the system solvent even under the most pessimistic employment assumptions.**

## **RRB Organizations and Functions**

**The RRB is headed by three members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chair, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chair of the Board is Cherryl T. Thomas, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.**

**The primary function of the RRB is the determination and payment of benefits under the retirement-survivor and unemployment-sickness insurance programs. To this end, the RRB must employ field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and professionals to operate the extensive data processing equipment needed for maintaining earnings records, calculating benefits, and processing payments.**

**The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, and personnel specialists. The Inspector General employs auditors and investigators to detect any waste, fraud, or abuse in the benefit programs.**

**The RRB's headquarters are located at 844 N. Rush Street in Chicago, Illinois. At September 30, 1998, there were 3 regional offices and 53 field offices throughout the United States.**

## **PERFORMANCE INDICATORS**

## PROGRAM PERFORMANCE INDICATORS

Pursuant to the Government Performance and Results Act (GPRA), in fiscal year 1997, the RRB issued a *Strategic Plan for Fiscal Years 1997-2002* and an *Annual Performance Plan for Fiscal Year 1999*. We intend to use our fiscal year 1999 financial statements to report our fiscal year 1999 accomplishments. To facilitate this transition, we have reformatted sections one and two of this report based on program performance indicators along the lines of our strategic plan and the annual performance plan presented in our *Fiscal Year 2000 Budget Submission*.

<b>GPRA Annual Performance Plan Performance Goal/Indicator</b>	<b>Actual FY 98</b>	<b>Actual FY 97</b>
<b>Performance Goal I-A: Optimize accuracy in providing benefits</b>		
1. Achieve a railroad retirement benefit payment accuracy rate of at least 99% (Measure: % accuracy rate).	Initial Payments: 99.7% <sup>1/</sup> Post payments: 99.9% <sup>1/</sup>	Initial Payments: 99.75% Post Payments: 99.9%
2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate of at least 99% (Measure: % accuracy rate)	UI: 99.8% SI: 99.6%	UI: 99.9% SI: 99.8%
<b>Performance Goal I-B: Make payments timely.</b>		
1. Railroad retirement employee or spouse receives initial annuity payment, or notice of denial, within 35 days of annuity beginning date, if advanced filed. (Measure: % ≤ 35 days)	Employee and Spouse ≤ 35 days: 94.3%	Employee <30 days: 71.0% Spouse <30 days: 74.5%
2. Railroad retirement employee or spouse receives initial annuity payment, or notice of denial, within 65 days of the date the application was filed, if not advanced filed. (Measure: % ≤ 65 days)	91.9%	Not available
3. Survivor annuitant not already receiving a benefit receives initial payment, notice of denial, or notice of transfer to SSA within 65 days of the annuity beginning date, or date filed (whichever is later). (Measure: % ≤ 65 days)	≤ 65 days: 76.5%	≤ 75 days: 91.4%
4. Survivor annuitant receiving benefits as spouse receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 days of RRB receipt of the notice of employee's death. (Measure: % ≤ 35 days)	90.0%	Not available

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<sup>1/</sup> Complete fiscal year 1998 actual results are not yet available. Figures shown represent the first 6 months review, and therefore do not represent full year results.

**GPRA Annual Performance Plan**  
**Performance Goal/Indicator**

**Actual FY 98**

**Actual FY 97**

5. Applicant for any railroad retirement death benefit receives payment, or notice of denial, within 65 days of date filed. (Measure: % ≤ 65 days)	≤ 65 days: 91.0%	≤ 75 days: 87.9%
6. Unemployed railroad worker receives UI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 15 days)	UI ≤ 15 days: 97.1%	UI ≤ 10 days: 97.0%
7. Railroad employee unable to work due to temporary illness or injury receives SI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 15 days)	SI ≤ 15 days: 99.2%	SI ≤ 10 days: 98.7%
8. Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt. (Measure: % ≤ 15 days)	Processed ≤ 15 days: 99.2%	Processed ≤ 10 days: 99.6%
9. Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed. (Measure: % ≤ 105 days)	Not available	≤ 120 days: 48.5%
10. Disabled applicant receives payment within 25 days of decision or earliest payment date (whichever is later). (Measure: % ≤ 25 days)	Not available	Not available
11. Maintain an end-of-year normal carry-forward balance of 11,055 cases or less in 8 targeted workload categories. (Measure: number on hand at end of year)	5,264	5,285

**Performance Goal I-C: Provide relevant, timely and accurate information which is easy to understand.**

1. Inquirer receives answer or acknowledgment of written correspondence within 15 days of receipt. (Measure: % ≤ 15 days)	Response ≤ 15 days: 98.3%	Response ≤ 10 days: 99.3%
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**GPRA Annual Performance Plan**  
**Performance Goal/Indicator**

**Actual FY 98**

**Actual FY 97**

2. Achieve quality and accuracy of correspondence, publications, and voice communications. (Measure: Surveys & reviews)

<sup>2/</sup>

<sup>3/</sup>

3. Maintain the combined balance of unprocessed record corrections and cases requiring review for corrected tax statements below the end-of-year normal working level (1,200 items) (Measure: Number on hand at end of year.)

550

302

**Performance Goal I-D: Provide a range of choices in service delivery methods.**

1. Offer service for the retirement program by telephone, Interactive Voice Response (IVR), mail, personal computer and in person via field offices and itinerant service (Measure: # of choices.)

5 choices

4 choices

2. Offer service for the unemployment/sickness program by telephone, IVR, mail, personal computer and in person via field offices and itinerant service (Measure: # of choices.)

5 choices

5 choices

3. Customer feedback (Measure: Surveys and reviews) [Note: We are developing procedures to measure our performance.]

Not available <sup>4/</sup>

Not available

**Performance Goal I-E: Ensure an efficient and effective reporting system for railroad employers.**

1. Railroad employer reports filed on time without problems (Measure: % of reports filed on time without problems.) <sup>5/</sup>

Compensation year 1997:  
71.8%

Compensation year 1996:  
79%

2. Railroad employee reports filed electronically or on magnetic media (Measure: % filed electronically, or on magnetic media.)

Compensation year 1997:  
96.1% of employees.

Compensation year 1996:  
96% of employees

<sup>2/</sup> Field Service Telephone Access Review: 92% of field offices reached on first attempt for survey conducted during business hours. A second aspect was included this year: 85% of voice mail reached after business hours on first attempt.

<sup>3/</sup> Field Service Telephone Access Review: 90% of field offices reached on first attempt.

<sup>4/</sup> No customer satisfaction survey was conducted by RRB in FY 1998. Customer satisfaction survey forms are being revised and will be available in district offices in FY 1999.

<sup>5/</sup> With more employers submitting reports via magnetic media in FY 1998, more process problems were experienced (e.g., several new filers failed to adhere to the specified format, and two employers had problems with their own new software). While we are working closely with employers to improve timeliness and accuracy of reports, it is the employers ultimately that determine when and how accurately their reports will be submitted.

**Performance Goal II-A: Ensure the integrity of benefit programs through comprehensive and integrated monitoring and prevention programs.**

1. Maintain active wage matches with all 50 states to ensure accuracy of benefit payments (Measure: # of states matching.)	50 plus Puerto Rico and District of Columbia.	50 plus Puerto Rico and District of Columbia.
2. Achieve a return of \$3.60 for each dollar spent on program integrity activities (Measure: \$ recoveries and savings per \$ spent.)	\$3.79 : \$1.00	\$4.18 : \$1.00
3. Perform continuing disability reviews (Measure: # performed)	2,338 <sup>6/</sup>	1,691

**Performance Goal II-B: Ensure efficient operations through an effective management control program.**

1. Take prompt action to correct any material weaknesses (Measure: # of material weaknesses open at beginning of fiscal year.)	2 open material weaknesses at the beginning of FY 1998	3 open material weaknesses at the beginning of FY 1997
2. Submit to the President and Congress, the FY 1997 annual Federal Managers' Integrity Act Report by December 31, 1997 (Measure date.)	12/23/97	12/19/96
3. Resolve audit findings promptly. (Measure: # of audit recommendations to put funds to better use that are not resolved within 6 months of report.	0	Different indicator used in FY 1997
4. Take prompt corrective action on audit recommendations (Measure: % of audit recommendations implemented by target date.)	Tracking system and FY 1999 goal established in FY 1998.	Tracking system to be established in FY 1998.

**Performance Goal II-C: Ensure that trust fund assets are projected, collected, recorded, & invested appropriately through an effective & efficient trust fund management program.**

1. Railroad Retirement Account's market rate of return will exceed the Bloomberg index of Treasury notes & bonds with more than 1 year of maturity. (Measure: Yes/No)	Bloomberg: 13.99%	9.09%
	RRB: 13.66%	9.79%
2. Debts will be collected through referrals to outside collection programs, including the Treasury Offset Program, Treasury cross-servicing, Federal Tax Offset Program, & private collection agencies. (Measure: \$'s collected)	\$882,818	\$829,059

<sup>6/</sup> Includes non-medical and medical reviews. For FY 1999, we will report on medical only.

**GPRA Annual Performance Plan**  
**Performance Goal/Indicator**

**Actual FY 98**

**Actual FY 97**

3. Complete compensation reconciliations at least 1 year before the statute of limitations expires. <sup>7/</sup> (Measure: % completed)	100%	100%
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**FINANCIAL PERFORMANCE INDICATORS**

**Ratio of Administrative Expenses to Benefit Payments<sup>8/</sup>**

<u>Program</u>	<u>FY 1998</u>	<u>FY1997</u>
Railroad Retirement and Survivor Program	0.8%	0.9%
Unemployment and Sickness Insurance Program	16.1%	14.2%
Combined	1.0%	1.0%

**Use of Administrative Resources by Program**

<u>Program</u>	<u>FY 1998</u>	<u>FY1997</u>
Railroad Retirement and Survivor Program	84.2%	84.3%
Unemployment and Sickness Insurance Program	15.8%	15.7%

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<sup>7/</sup> Compensation reconciliations involve a comparison of compensation reported by railroad employers to the RRB for benefit calculation purposes with compensation reported to the IRS for tax purposes.

<sup>8/</sup> Excludes funds transferred to the OIG for administrative expenses and includes SSA benefit payments.

**EFFICIENCY OF OPERATIONS**  
**(Unit Costs in Constant Dollars)**

This section shows direct costs for agency program activities and indicates how efficiently the Railroad Retirement Board performs its day-to-day business functions. When constant dollars are shown (using 1982-84 as the base years), the conversion from "actual" dollars to "constant" dollars is based on the consumer price index for urban wage earners and clerical workers (CPI-W) as published by the Bureau of Labor Statistics. The average CPI-W indexes are as follows: 1997 = 157.6; and 1998 = 159.7.

<u>Function</u>	<u>FY 1998</u>	<u>FY 1997</u>
Processing Retirement and Survivor Applications:		
- Volume	62,119	55,547
- Workyears	229.94	237.16
- Production per workyear	270	234
- Direct unit cost	\$129.71	\$143.84
Processing Unemployment and Sickness Insurance Claims:		
- Volume	302,339	351,330
- Workyears	100.31	111.96
- Production per workyear	3,014	3,138
- Direct unit cost	\$10.95	\$9.93
Maintenance of Beneficiary Rolls		
- Volume	881,707	897,404
- Workyears	264.46	262.62
- Production per workyear	3,334	3,417
- Direct unit cost	\$10.85	\$10.17
Maintenance of Rail Earnings Accounts		
- Volume	321,017	324,636
- Workyears	30.53	37.40
- Production per workyear	10,515	8,680
- Direct unit cost	\$3.58	\$4.15
Medicare Processing		
- Volume	24,906	25,386
- Workyears	5.26	5.02
- Production per workyear	4,735	5,057
- Direct unit cost	\$7.82	\$6.91
Medicare Maintenance		
- Volume	174,258	195,775
- Workyears	46.58	44.82
- Production per workyear	3,741	4,368
- Direct unit cost	\$9.27	\$7.60

## **Year 2000 Project**

### **Current Status**

The Railroad Retirement Board has made good progress on the Year 2000 (Y2K) project. As of mid-January 1999, we had converted 100 percent of our mission-critical application systems. We further expect to complete the conversion of all our non-mission-critical application systems by September 30, 1999. As of February 1, 1999, we had converted 69 percent of these application systems. We are prepared to accept and transmit compliant or non-compliant file formats with our exchange partners using "bridge" programs that will reformat files according to agreed upon file formats. We are planning a series of major integration tests after the individual systems have been revised and put into the production environment. These tests will be geared towards ensuring that all interfaces, connections and links between the various systems remain in sync and fully functional. We plan to continue integration testing of the major systems throughout most of calendar year 1999. In addition to our application systems, we have taken steps to ensure the compliance of all commercial off-the-shelf software packages in use at the agency, as well as the compliance of non-information systems such as elevators, building security systems and telephone systems. We expect all such systems to be tested and compliant in time.

### **Costs**

The historical and estimated obligations to address the agency Y2K issues is shown on the next page.

### **Risks**

The ability to carry out the agency's mission through its mission-critical application systems will be ensured by the end of calendar year 1999 when all systems are converted. The benefit payment information developed by these systems is not directly transmitted from these systems to our customers. We transmit this information to the Department of the Treasury (Treasury) which is responsible for processing benefit payment information provided by our agency. We have been in contact with Treasury officials on several occasions during the course of this project. We have been advised that no processing changes are required.

### **Contingency Plans**

Because all of the RRB's mission-critical systems have been converted, well in advance of OMB's deadline of March 1999, contingency plans for application system conversions are not necessary. However, we are preparing business continuity and contingency plans to address our mission-critical functions. Our goal is to complete and test these plans by the end of fiscal year 1999.

**RAILROAD RETIREMENT BOARD**  
**Summary Report on Estimated Obligations for Achieving Year 2000 Computer Compliance**

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	Total
1. Equipment						
A. Capital purchases <sup>1</sup>	\$370,825	\$5,470	\$1,592,948	\$861,000	\$0	\$2,830,243
B. Other equipment purchases/leases	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$370,825	\$5,470	\$1,592,948	\$861,000	\$0	\$2,830,243
2. Software						
A. Capital purchases	\$206,576	\$10,000	\$49,690	\$121,800 <sup>3</sup>	\$0	\$388,066
B. Other equipment purchases/leases	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$206,576	\$10,000	\$49,690	\$121,800	\$0	\$388,066
3. Services	\$0	\$0	\$0	\$0	\$0	\$0
4. Support services	\$27,395	\$88,972	\$221,486	\$217,271 <sup>3</sup>	\$97,866	\$652,990
5. Supplies	\$0	\$0	\$0	\$0	\$0	\$0
6. Personnel (compensation/benefits) <sup>2</sup>	\$245,895	\$1,973,345	\$3,306,277	\$3,812,600 <sup>3</sup>	\$836,980	\$10,175,097
7. Intra-governmental payments	\$0	\$0	\$0	\$0	\$0	\$0
8. Intra-governmental collections	\$0	\$0	\$0	\$0	\$0	\$0
9. Total obligations	\$850,691	\$2,077,787	\$5,170,401	\$5,012,671	\$934,846	\$14,046,396
10. Workyears (FTEs)	4.09	30.59	46.00	50.00	10.00	140.68

<sup>1</sup> This includes the purchase of microcomputers and related software needed to ensure Year 2000-compliant desktop workstations for all employees.

<sup>2</sup> This reflects the direct cost of this project. It does not include indirect costs of overhead and managerial support.

<sup>3</sup> A portion of these costs are based on the assumption that special Y2K funding becomes available under OMB Memorandum M98-14 (software library control system and training, systems testing, installation of new desktop computers, local area network upgrades, software maintenance, and telephone system software).



## **FINANCIAL HIGHLIGHTS**

## **FINANCIAL HIGHLIGHTS**

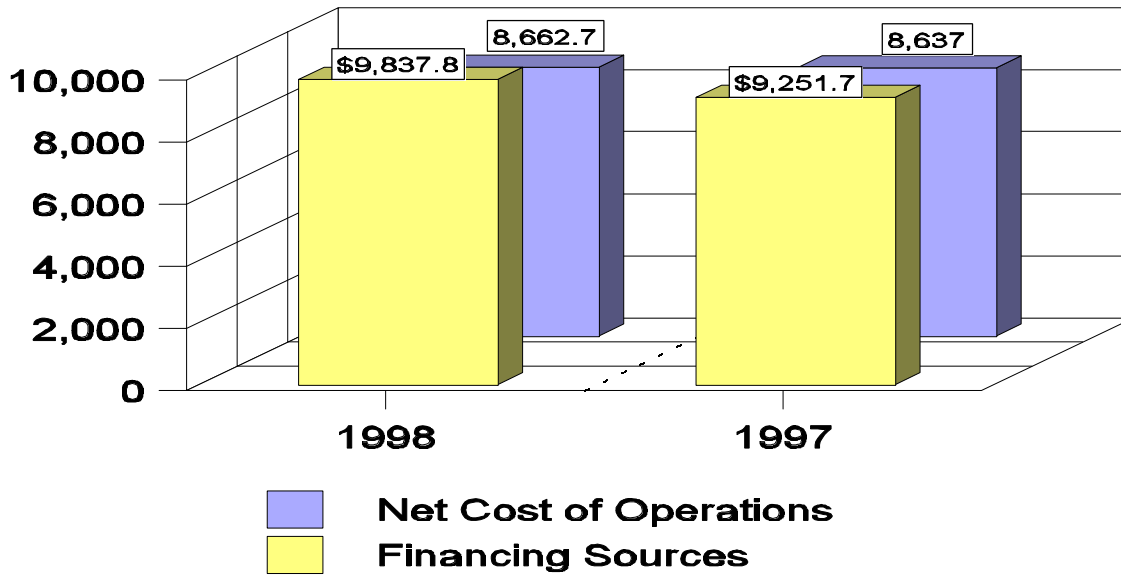
The RRB's principal FY 1998 financial statements are comprised of Balance Sheet, Statements of Net Cost, Changes in Net Position and Financing (prepared on a consolidated basis, which eliminates all significant interfund balances and transactions) and the Statement of Budgetary Resources, and Custodial Activity (prepared on a combined basis, which does not eliminate significant interfund balances and transactions). While the RRB is not subject to the Chief Financial Officers Act of 1990, the financial statements have been prepared to report the financial position and results of operations of the RRB, pursuant to the requirements of that Act. The statements have been prepared from the books and records of the RRB in accordance with the formats prescribed by the Office of Management and Budget (OMB), under OMB Bulletin 97-01, as amended and the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. Supplementary schedules are included by fund for the Railroad Retirement (RR) Program, the Railroad Unemployment and Sickness Insurance (RUSI) Program, Deposit and Other Funds, and Schedule of Salaries and Expenses and Benefit Payments for FY 1998.

Except for the Dual Benefits Payments Account (which is maintained on a cash basis of accounting as required by law), these statements were prepared on an accrual basis of accounting in accordance with generally accepted Federal government accounting principles and standards prescribed by the General Accounting Office (GAO), the Department of the Treasury (Treasury), Federal Accounting Standards Advisory Board (FASAB), and OMB. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities not covered by budgetary resources cannot be liquidated without legislation that provides resources to do so.

### **Comparison of Net Cost of Operations and Financing Sources**

Financing sources were greater than the net cost of operations during FY 1998 by \$1,175.1 million (excludes prior period adjustments of \$0.9 million and a decrease in unexpended appropriations of \$0.6 million). When prior period adjustments and decrease in unexpended appropriations are considered, the net position of the consolidated trust funds increased from \$15,411.3 million as of September 30, 1997, to \$16,584.9 million as of September 30, 1998. The net cost of operations and financing sources for FY 1998 and FY 1997 are shown on the following page.

### NET COST OF OPERATIONS AND FINANCING SOURCES



The details of net cost of operations by type, amount, increase or decrease, and percentage change from fiscal years 1997 to 1998 are shown below and the details on financing sources for the same years are shown on page 20.

### NET COST OF OPERATIONS (In millions)

	FY 1998	FY 1997	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense - Treasury borrowing	\$ 243.9	\$ 244.6	\$(0.7)	(0.3)%
Salaries and expenses	99.1	99.4	(0.3)	(0.3)
Benefit payments - RRB	8,316.1	8,290.5	25.6	0.3
Other expenses (revenues):				
Earned revenues	(4.0)	(5.6)	1.6	28.6
Federal employee benefits	<u>7.6</u>	<u>8.1</u>	<u>(0.5)</u>	<u>(6.2)</u>
Subtotal	3.6	2.5	1.1	44.0
<b>Total</b>	<b>\$8,662.7</b>	<b>\$8,637.0</b>	<b>\$25.7</b>	<b>0.3%</b>

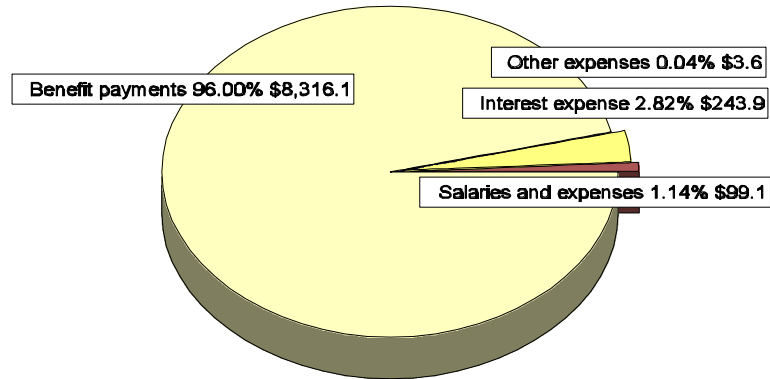
**For FY 1998 as compared to FY 1997:**

- Total net cost of operations during FY 1998 increased by \$25.7 million (0.3 percent) during FY 1998 to \$8,662.7 million.**
- Interest expense - Treasury borrowings decreased by \$0.7 million (0.3 percent) during FY 1998 to \$243.9 million. The decrease was primarily due to a decrease in the interest rate.**
- Salaries and expenses decreased by \$0.3 million (0.3 percent) during FY 1998 to \$99.1 million.**
- RRB benefit payments increased \$25.6 million (0.3 percent) during FY 1998 to \$8,316.1 million.**
- Other expenses increased by \$1.1 million (44.0 percent) during FY 1998 to \$3.6 million.**

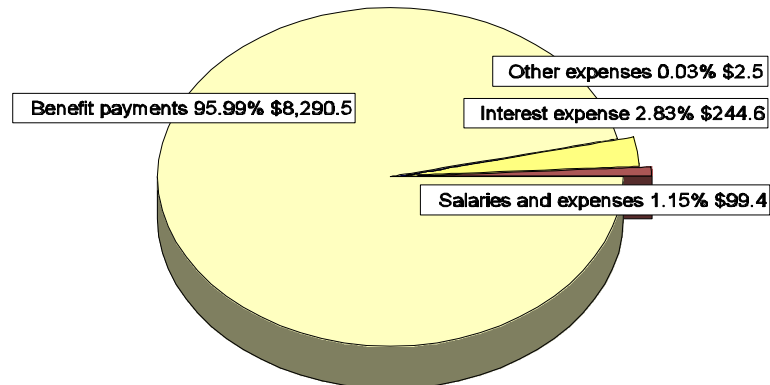
# NET COST OF OPERATIONS

(IN MILLIONS)

FY 1998



FY 1997



The following table shows financing sources by type, amount, increase or decrease, and percentage change from FY 1997 to FY 1998.

**FINANCING SOURCES**  
(In millions)

	FY 1998	FY 1997	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Appropriations used	\$ 188.9	\$ 206.7	(\$17.8)	(8.6%)
Taxes and other non-exchange revenues:				
Payroll taxes	4,683.4	4,399.4	284.0	6.5
Federal income taxes	302.0	248.0	54.0	21.8
RUI contributions	86.5	29.3	57.2	195.2
Interest, penalty, handling and other income	<u>1.4</u>	<u>1.5</u>	<u>(0.1)</u>	<u>(6.7)</u>
Subtotal	5,073.3	4,678.2	395.1	8.4
Imputed financing	7.6	8.1	(0.5)	(6.2)
Transfers-in:				
Interest income on investments	989.3	999.1	(9.8)	(1.0)
FI transfer - Principal and interest	3,806.3	3,782.2	24.1	0.6
Interest income - FI advances	6.5	8.1	(1.6)	(19.8)
Gain on sale of securities	<u>198.1</u>	<u>10.0</u>	<u>188.1</u>	<u>1,881.0</u>
Subtotal	<u>5,000.2</u>	<u>4,799.4</u>	<u>200.8</u>	<u>4.2</u>
Transfers-out:				
Transfer to FHI - Principal and interest	(427.0)	(436.8)	(9.8)	(2.2)
Interest expense - Carriers	<u>(5.2)</u>	<u>(3.9)</u>	<u>1.3</u>	<u>33.3</u>
Subtotal	<u>(432.2)</u>	<u>(440.7)</u>	<u>(8.5)</u>	<u>(1.9)</u>
Net transfers	4,568.0	4,358.7	209.3	4.8
Total	\$9,837.8	\$9,251.7	\$586.1	6.3%



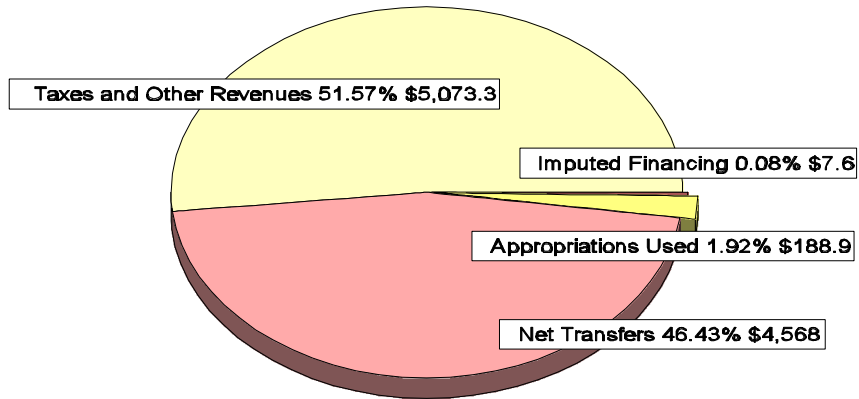
**For FY 1998 as compared to FY 1997:**

- **Total financing sources increased by \$586.1 million or 6.3 percent during FY 1998 to \$9,837.8 million.**
- **Payroll taxes increased by \$284.0 million or 6.5 percent during FY 1998 to \$4,683.4 million.**
- **Federal income taxes increased by \$54.0 million or 21.8 percent during FY 1998 to \$302.0 million.**
- **Railroad Unemployment Insurance (RUI) contributions increased by \$57.2 million or 195.2 percent during FY 1998 to \$86.5 million.**
- **Interest, penalty, handling and other income decreased by \$0.1 million or 6.7 percent during FY 1998 to \$1.4 million.**
- **Imputed financing represents the amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees.**
- **Interest income on investments decreased by \$9.8 million or 1.0 percent in FY 1998 to \$989.3 million.**
- **Financial Interchange (FI) transfers - Principal and interest from SSA increased by \$24.1 million or 0.6 percent during FY 1998 to \$3,806.3 million.**
- **Interest income - FI advances decreased by \$1.6 million or 19.8 percent during FY 1998 to \$6.5 million.**
- **Gain on sale of securities increased by \$188.1 million or 1,881.0 percent during FY 1998.**
- **Transfer to FHI- Principal and interest decreased by \$9.8 million or 2.2 percent during FY 1998 to \$427.0 million.**

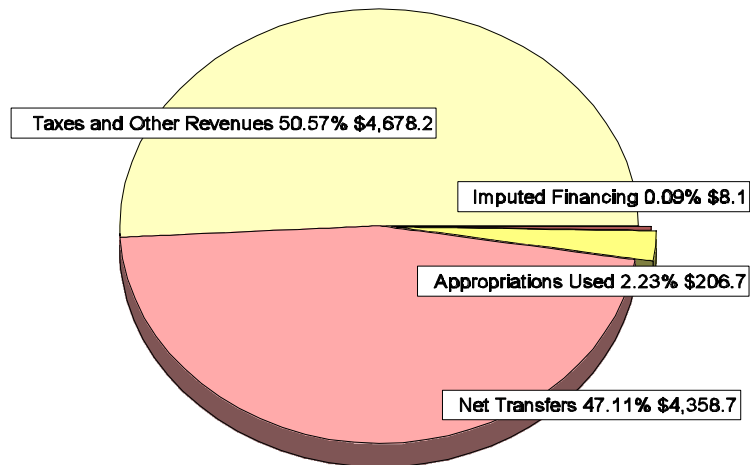
# FINANCING SOURCES

(IN MILLIONS)

**FY 1998**

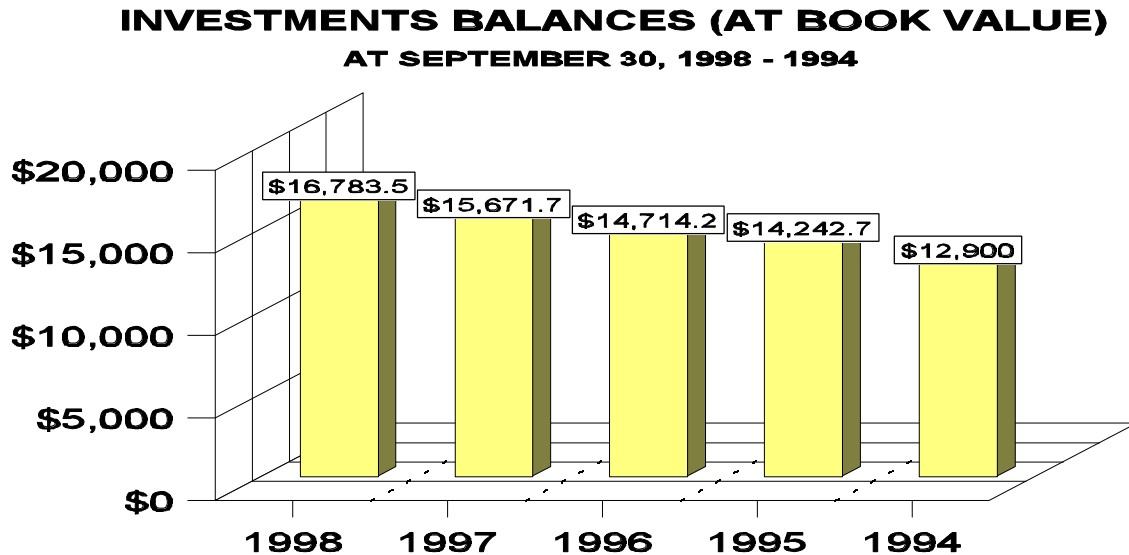


**FY 1997**



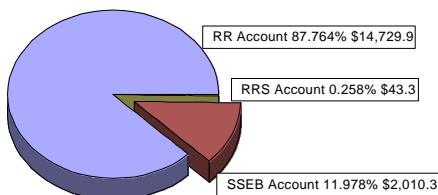
## Railroad Retirement Investments

The book value of all Railroad Retirement (RR) investments including accrued interest, increased to \$16,783,491,448 as of September 30, 1998 from \$15,671,675,552 on September 30, 1997. During this same period, the market value of these investments including accrued interest increased to \$18,101,459,004 as of September 30, 1998 from \$16,149,302,727 as of September 30, 1997. The graph below reflects the growth in the RR book value of investments from September 30, 1994, through September 30, 1998.



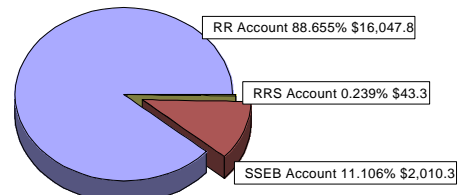
The following chart shows the portfolio of the RR investments at book and market value including accrued interest as of September 30, 1998.

### RAILROAD RETIREMENT INVESTMENTS AS OF SEPTEMBER 30, 1998 (IN MILLIONS)



AT BOOK VALUE

Total \$16,783.5



AT MARKET VALUE

Total \$18,101.4

### **Railroad Retirement Account**

On September 30, 1998 and 1997, the book values of the RR Account investments, including accrued interest, totaled \$14,729,848,621 and \$13,910,723,883, respectively. The balance on September 30, 1998, consisted of \$6,896,981,058 in market-based notes and bonds maturing from August 15, 2004, to February 15, 2016, with market yields ranging from 4.46 percent to 5.44 percent, \$7,770,607,000 in 5.00 percent par value specials (with market value equal to face value) maturing on October 1, 1998, and accrued interest of \$62,260,563. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away. The balance on September 30, 1997, consisted of \$6,380,000,585 in market-based notes and bonds maturing from August 15, 2004, to February 15, 2016, with market yields ranging from 6.14 percent to 6.56 percent, \$7,440,568,000 in 6.25 percent par value specials (with market value equal to face value) maturing on October 1, 1997 and accrued interest of \$90,155,298. The average yields on all holdings of the RR Account for FY's 1998 and 1997 were 6.38 percent and 6.78 percent, respectively. During FY's 1998 and 1997, various market-based securities were sold yielding capital gains of \$198.1 million and \$10.0 million, respectively. It is anticipated that the reinvested sale proceeds will result in a larger yield than if the bonds had been held to maturity.

### **Social Security Equivalent Benefit Account**

On September 30, 1998 and 1997, the book values of the Social Security Equivalent Benefit (SSEB) Account investments, including accrued interest, totaled \$2,010,325,649 and \$1,722,937,665, respectively. The balance on September 30, 1998, consisted of \$2,003,212,000 invested in par value specials of 5.00 percent maturing on October 1, 1998 and accrued interest of \$7,113,649. The balance on September 30, 1997, consisted of \$1,715,749,000 invested in par value specials of 6.25 percent maturing on October 1, 1997 and accrued interest of \$7,188,665. The average yields of all holdings of the SSEB Account for FY's 1998 and 1997 were 5.71 percent and 6.39 percent, respectively.

### **Railroad Retirement Supplemental Account**

Investments in the Railroad Retirement Supplemental (RRS) Account, including accrued interest, totaled \$43,317,178 on September 30, 1998 and \$38,014,004 on September 30, 1997. The balance on September 30, 1998, consisted of \$43,168,000 invested in par value specials of 5.00 percent maturing on October 1, 1998 and accrued interest of \$149,178. The balance on September 30, 1997, consisted of \$37,851,000 invested in par value specials of 6.25 percent maturing on October 1, 1997 and accrued interest of \$163,004. The average yields on these securities were 5.71 percent for FY 1998 and 6.38 percent for FY 1997.

### **Accounts Receivable - Benefit Overpayments**

In FY 1998, the RRB reduced the accounts receivable balance (prior to application of the allowance for doubtful accounts) from approximately \$68.0 million to \$59.4 million or 12.6 percent. During fiscal year 1998, new receivables totaling \$87.3 million were established,

collections were \$64.0 million, returned payments were \$21.6 million, waivers were \$3.8 million, write-offs were \$5.0 million, and adjustments were \$1.5 million. The ratio of collections to new receivables after deducting returned payments and adjustments was 99.7 percent.

Our automated reclamation system identified and established \$30.7 million in receivables resulting from erroneous benefit payments issued after the death of beneficiaries. This system initiated \$14.3 million in reclamations to the Department of the Treasury. Recoveries of \$20.4 million in returned payments and \$9.2 million in reclamation payments were received in fiscal year 1998.

In compliance with the Debt Collection Improvement Act of 1996 (DCIA) the Railroad Retirement Board referred nearly \$5.1 million in delinquent receivables to the Treasury Offset Program (TOP) in addition to the initial \$8.9 million in delinquent receivables referred in fiscal year 1997, for salary and tax refund offset, resulting in fiscal year 1998 recoveries of \$857,288. Pursuant to the DCIA, Treasury regulations, and contract changes, no new debts have been referred this calendar year to private collection agencies. All debts previously referred for which no payments were received have been returned. Work has been delayed on referring debts to Treasury for cross-servicing, pending Treasury decisions on transmissions, record format, and coordination with their TOP program. Recoveries of \$25,530 were made in fiscal year 1998 from debt collection programs being phased out.

#### Internal Control

On December 28, 1998, the Railroad Retirement Board reported to the President and the Congress that the results of its fiscal year 1998 evaluation of controls prescribed by the Federal Managers' Financial Integrity Act (FMFIA), as well as other information (such as internal and external audits), provide reasonable assurance that the RRB's system of controls taken as a whole, is in compliance with Section 2, Internal Controls, and Section 4, Financial Systems, of the FMFIA.

#### RRB's Actuarial Forecast

Presented in note 23 to the consolidated financial statements are our actuarial estimates of (1) the difference between future financing sources and expenditures for the RR Account between October 1, 1998, and December 31, 2071, and (2) the actuarial position of the account as of September 30, 1998. The actuarial position (surplus/deficiency) is not reflected in the financial statements because the specific criteria applied to annuity-type plans for recognizing an asset or a liability for future benefit payments are not met. The railroad retirement system does not meet these definitions because (1) benefit payments are in large part funded from current revenues and (2) benefits have been periodically changed by the Congress.

The actuarial surpluses and deficiencies presented in the notes to the financial statements are based on future financing sources and expenditures for future entrants as well as former and present railroad employees. The 1998 Section 502 Report projected the status of the retirement trust funds under three employment assumptions. The report indicates that cash flow problems are projected only under a pessimistic employment assumption and then not until calendar year 2022.

Kenneth P. Boehne  
Chief Financial Officer

Peter A. Larson  
Director of Fiscal Operations

## **AUDITOR'S REPORTS**



## Auditor's Report

To the Board Members:

We were engaged to audit the Principal Statements and Supplementary Schedules of the United States Railroad Retirement Board (RRB). The Principal Statements are comprised of the consolidated balance sheet as of September 30, 1998 and the related consolidated statements of net cost, changes in net position and financing, the combined statement of budgetary resources and the statement of custodial activity for the year then ended. The principal statements and supplementary schedules are the responsibility of RRB management.

Financial Interchange occurs between RRB, the Social Security Administration (SSA) and the Health Care Financing Administration (HCFA). This financial interchange is intended to place the SSA's Old Age, Survivors and Disability Insurance (OASDI) Trust Funds and HCFA's Hospital Insurance (HI) Trust Funds in the same position in which they would have been had railroad employment been covered by the Social Security and Federal Insurance Contribution Acts. The consolidated statements of financial position reflect the estimated net financial interchange transfer from the OASDI and HI Trust Funds in the following amounts:

	<b>1998</b>	
	<b>Principal (billions)</b>	<b>Interest (millions)</b>
<b>Transfer from/to</b>		
<b>SSA to RRB</b>	<b>\$3.519</b>	<b>\$145.6</b>
<b>RRB to HCFA</b>	<b><u>(.393)</u></b>	<b><u>(18.4)</u></b>
<b>Net financing interchange receivable at year-end</b>	<b>\$3.126</b>	<b>\$127.2</b>

These amounts included estimates of amounts due but unpaid at the end of the fiscal year and estimated interest accrued for the fiscal year. Actual determination and settlement of

the amounts due at the end of the fiscal year are typically made in June of the subsequent fiscal year. The receivable amounts are reported under "Accounts Receivable – Intragovernmental" as "Financial Interchange – Principal" and "Financial Interchange – Interest." The payable amounts are reported under "Accounts Payable Intragovernmental" as "Accounts Payable – FHI Principal" and "Accounts Payable – FHI Interest." The consolidated statement of changes in net position reflects net revenues of approximately \$3.806 billion and \$ 427.1 million for 1998 relating to the principal and interest on these transfers and are reported under "Transfers –in" and "Transfers – out" respectively. We were unable to obtain sufficient audit evidence for these receivables and payables to determine the proper accounting of the receivable and/or payable and related net revenue amounts.

As described in note 1 to the financial statements, the principal statements and supplementary schedules were prepared in accordance with Federal accounting standards as prescribed by the General Accounting Office, Office of Management and Budget (OMB), the Federal Accounting Standards Advisory Board and the U.S. Department of Treasury including OMB Bulletin 97-01, as amended.

Because we could not determine the effect of such adjustments, if any, as might have been disclosed had we been able to obtain sufficient audit evidence to determine the proper accounting and reporting of receivable and/or payable and related net revenue amounts, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying 1998 consolidated financial statements and supplementary schedules.

This report is intended solely for the information and use of the RRB Board Members, RRB management, others within the organization of the RRB, OMB and Congress. However, this report is a matter of public record, and its distribution is not limited.

Martin J. Dickman,  
Inspector General

March 5, 1999

## Report on Internal Control

To the Board Members:

We were engaged to audit the Principal Statements and Supplementary Schedules (hereinafter referred to as “financial statements”) of the United States Railroad Retirement Board (the RRB) as of and for the year ended September 30, 1998, and have issued our report thereon dated March 5, 1999 in which we rendered a disclaimer of opinion. We discuss the reasons for that disclaimer on page 3 of this report (see “Financial Interchange with SSA and HCFA”). We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No.98-08, “Audit Requirements for Federal Financial Statements.”

In planning and performing our audit, we considered the RRB’s internal control over financial reporting by obtaining an understanding of the agency’s internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently we do not provide an opinion on internal controls.

The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified public Accountants, reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the RRB’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted certain matters, discussed in the following paragraphs, involving internal control and its operations that we consider to be reportable conditions, including one material weakness.

In addition, with respect to internal controls related to performance measures reported in conjunction with the financial statements, we obtained an understanding of the design of relevant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion on such controls.

The conditions discussed in this report (together with other matters reported to RRB management in a separate letter) were considered in determining the nature, timing, and extent of the audit tests applied during our audit of the 1998 financial statements. This report does not affect our report on the financial statements dated March 5, 1999. We have not considered internal control since the date of our report.

## MATERIAL WEAKNESS

### Overall Control Environment

The organizational structure of the RRB consists of 20 major operating units, plus the staffs of the Chairman, Management, and Labor members of the Board. As in prior audits, we continue to observe that the RRB's internal control environment is focused on control objectives and techniques designed to meet the organizational responsibilities of each of the individual operating units, rather than designed to meet the overall objectives of the RRB. We believe that the present administrative structure is the primary cause of this internal control weakness.

The agency has undergone reorganization since this weakness was originally cited during Arthur Andersen LLP's audit of the RRB's FY 1993 financial statements. However, these changes have not impacted the overall control environment. The future impact of the most recent reorganization, effective January 1999, cannot be predicted at the present time.

The RRB did not include our finding concerning the overall control environment as a material weakness in 1997 and 1998 Federal Managers' Financial Integrity Act Report. The agency and the OIG differ concerning the effectiveness of agency actions to-date. We believe that the overall control environment continues to represent a material weakness in internal control. The conditions that led to the original finding continue to exist and have an adverse effect on the agency's ability to meet its internal control objectives.

## OTHER REPORTABLE CONDITIONS

### Supporting Documentation for Payroll Tax Receipts

The Internal Revenue Service collects railroad retirement taxes that are subsequently remitted to the RRB via the Department of the Treasury. Although most tax deposits are being made electronically, the RRB is not able to effectively determine whether all tax deposits are being properly credited to the agency's trust funds. Due to the full implementation of the automated systems Fedwire, RRBLink and EFTPS, this condition, previously evaluated as a material weakness, is now assessed at the level of a reportable condition. However, the quantity, quality and timeliness of data are not sufficient to permit detailed analysis and comparison of taxes deposited by railroad employers with amounts credited to the RRB's trust funds by the Department of the Treasury. As a result, the RRB cannot obtain a high level of assurance that all deposits have been properly credited.

The automated systems used to collect, transfer and report on electronic deposits belong to the Department of the Treasury. The design and operation of these systems is not under RRB control. The Bureau of Fiscal Operations (BFO) has been working with the appropriate parties to improve the system reporting and we have made no additional recommendations for corrective action.

#### Financial Interchange with SSA and HCFA

The financial statements of the RRB include an accrual for receivables and payables resulting from the annual financial interchange with the Social Security Administration (SSA) and the Health Care Financing Administration (HCFA). Because of the extensive estimating that is involved in computing the accruals at September 30, and the significant differences that have occurred in prior years between the accruals and the actual settlement amounts as a percentage of the excess revenue and financing sources over total expenses, we were unable to apply audit procedures to these receivables and payables. As a result, we were unable to determine what adjustments to the financial statement, if any, might be necessary. This limitation on the scope of our audit caused us to issue a disclaimer of opinion on the agency's financial statements.

We have recommended that the RRB seek the advice of authoritative sources outside of the agency in resolving the technical accounting issues that underlie this problem. The Office of Inspector General plans to work with agency personnel with the objective of resolving this matter prior to the end of the next financial audit cycle.

#### INTERNAL CONTROL AND THE INTEGRITY ACT

As part of our audit, we also obtained an understanding of the RRB's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (Integrity Act). We compared the fiscal year 1998 Integrity Act items that related to the RRB's consolidated financial statements with the evaluation we conducted of the RRB's internal control structure. The RRB did not include our finding concerning the overall control environment as a material weakness in the 1997 and 1998 Integrity Act Reports. However, we believe that the overall control environment should be reported as a material weakness under the Integrity Act. A detailed discussion of this issue appears on page 2 of this report.

Prior financial statement audits cited the RRB for a material weakness related to benefit payment accuracy. We have determined that this is no longer a financial statement audit issue. However, the agency's FY 1998 Integrity Act report was issued prior to completion of our audit assessment and does not reflect that change. We have discussed this matter in detail in our *Report on Compliance with Laws and Regulations*, dated March 5, 1999.

#### OTHER MATTERS INVOLVING INTERNAL CONTROL

Although not considered to be reportable conditions, we also noted other matters involving internal control and its operations that we have reported to RRB management in a separate letter to management dated March 5, 1999.

This report is intended solely for the information and use of the RRB Board Members, RRB management, others within the organization of the RRB, OMB and Congress. However, this report is a matter of public record, and its distribution is not limited.

Martin J. Dickman,  
Inspector General

March 5, 1999

## Report on Compliance with Laws and Regulations

To the Board Members:

We were engaged to audit the Principal Statements and Supplementary Schedules (hereinafter referred to as “financial statements”) of the United States Railroad Retirement Board (RRB) as of and for the year ended September 30, 1998, and have issued our report thereon dated March 5, 1999. We conducted our audit in accordance with: generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards issued by the comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, “Audit Requirements for Federal Financial Statements.” We rendered a disclaimer of opinion due to the lack of sufficient audit evidence to determine the proper accounting and reporting of the financial interchange receivable and/or payable, and related net revenue amounts.

The management of the RRB is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance with the laws and regulations, described in the preceding paragraph exclusive of FFMIA, disclosed no instances of noncompliance with the laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin 98-08.

Under FFMIA, we are required to report whether the agency’s financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards and the United States government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed instances, described below, in which the agency’s financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

We determined that RRB systems supporting railroad retirement tax deposits and the financial interchange with the Social Security Administration do not meet certain financial management systems requirements established by the FFMIA. We discuss these internal

control weaknesses in our *Report on Internal Control*. These weaknesses, which adversely impact the completeness, timeliness and reliability of the financial statements, have been reported to management in the audit reports and management letters resulting from current and prior year audits of the agency's financial statements.

Prior audits cited the RRB for noncompliance with the Railroad Retirement Act (RRA), as amended, and related regulations, because of uncorrected errors in the benefit payments of current beneficiaries. The auditors also concluded that the agency's financial systems did not meet the Federal financial management requirements established in the FFMIA. We reassessed this issue during the current audit and determined that the level of errors do not indicate noncompliance with the RRA or a deficiency relative to the FFMIA. Regulations governing the administrative finality of agency decisions sufficiently limit the RRB's liability for correction of past errors. The agency maintains a system of internal controls designed to ensure the accuracy of benefits. While this system is not adequate to ensure 100% accuracy, the existence of errors alone does not indicate noncompliance with law or regulation.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report does not modify our report dated March 5, 1999, on RRB's financial statements referred to in the first paragraph of this report.

This report is intended solely for the information and use of the RRB Board Members, RRB management, others within the organization of the RRB, OMB and Congress. However, this report is a matter of public record, and its distribution is not limited.

Martin J. Dickman,  
Inspector General

March 5, 1999



## **FINANCIAL STATEMENTS**

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30,**

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$102,679,154	\$105,277,715
Investments (Note 3)	16,783,491,448	15,671,675,552
Accounts Receivable (Note 4)	<u>3,796,238,345</u>	<u>3,823,046,914</u>
Total Intragovernmental	20,682,408,947	19,600,000,181
Accounts Receivable, Net (Note 5)	41,559,434	47,913,547
Operating Materials and Supplies (Note 6)	267,451	259,838
Property and Equipment (Note 7)	7,320,323	10,984,856
Other Assets (Note 8)	<u>25,953,663</u>	<u>7,793,305</u>
<b>TOTAL ASSETS</b>	<u><b>\$20,757,509,818</b></u>	<u><b>\$19,666,951,727</b></u>
<b>LIABILITIES</b>		
Liabilities Covered By Budgetary Resources:		
Intragovernmental Liabilities:		
Accounts Payable (Note 9)	\$498,808,821	\$529,896,961
Other Intragovernmental Liabilities	<u>767,453</u>	<u>160,396</u>
Total Intragovernmental	499,576,274	530,057,357
Accounts Payable	1,001,319	1,475,380
Other Governmental Liabilities (Note 10)	<u>704,683,953</u>	<u>708,999,672</u>
Total Liabilities Covered By Budgetary Resources	<u>1,205,261,546</u>	<u>1,240,532,409</u>
Liabilities Not Covered By Budgetary Resources:		
Intragovernmental Liabilities:		
Debt (Note 11)	2,962,134,660	3,009,783,967
Governmental Liabilities		
Other Governmental Liabilities (Note 12)	<u>5,260,409</u>	<u>5,291,612</u>
Total Liabilities Not Covered By Budgetary Resources	<u>2,967,395,069</u>	<u>3,015,075,579</u>
Total Liabilities	<u>4,172,656,615</u>	<u>4,255,607,988</u>
<b>NET POSITION</b>		
Unexpended Appropriations (Note 13)	27,252,059	27,973,249
Cumulative Results of Operations (Note 14)	<u>16,557,601,144</u>	<u>15,383,370,490</u>
Total Net Position	<u>16,584,853,203</u>	<u>15,411,343,739</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><b>\$20,757,509,818</b></u>	<u><b>\$19,666,951,727</b></u>

The accompanying notes are an integral part of these financial statements.

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF NET COST  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,**

	<u>1998</u>	<u>1997</u>
<b>COSTS</b>		
<b>INTRAGOVERNMENTAL -</b>		
Interest Expense - Treasury Borrowing (Note 15)	\$243,862,922	\$244,576,712
Salaries and Expenses (Note 16)	<u>23,352,342</u>	<u>23,732,303</u>
	<u>267,215,264</u>	<u>268,309,015</u>
<b>PUBLIC</b>		
Benefit Payments - RRB (Note 16)	8,316,115,921	8,290,504,730
Salaries and Expenses (Note 16)	<u>75,755,864</u>	<u>75,738,148</u>
	<u>8,391,871,785</u>	<u>8,366,242,878</u>
<b>Total Costs</b>	<b>8,659,087,049</b>	<b>8,634,551,893</b>
<b>EARNED REVENUES</b>		
Reimbursements	<u>3,968,762</u>	<u>5,535,535</u>
<b>NET PROGRAM COSTS</b>	<b>8,655,118,287</b>	<b>8,629,016,358</b>
<b>COST NOT ASSIGNED TO PROGRAMS</b>		
Other Expenses - Federal Employee Benefits	7,641,367	8,080,960
<b>Less Earned Revenues Not Attributed to Programs</b>	<u>68,492</u>	<u>71,237</u>
<b>NET COST OF OPERATIONS</b>	<u><u>\$8,662,691,162</u></u>	<u><u>\$8,637,026,081</u></u>

The accompanying notes are an integral part of these financial statements.

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,**

	<u>1998</u>	<u>1997</u>
<b>Net Cost of Operations</b>	<b><u>(\$8,662,691,162)</u></b>	<b><u>(\$8,637,026,081)</u></b>
<b>Financing Sources:</b>		
Appropriations Used (Note 17)	188,949,484	206,659,642
Taxes and Other Non-Exchange Revenues (Note 18)	5,073,250,460	4,678,242,358
Imputed Financing	7,618,424	8,080,960
Transfers-in (Note 19)	5,000,170,396	4,799,413,748
Transfers-out (Note 20)	<u>(432,224,400)</u>	<u>(440,652,118)</u>
<b>Total Financing Sources</b>	<b><u>9,837,764,364</u></b>	<b><u>9,251,744,590</u></b>
<b>Net Results (Deficit) of Operations</b>	<b>1,175,073,202</b>	<b>614,718,509</b>
<b>Prior Period Adjustments (Note 21)</b>	<b><u>(931,576)</u></b>	<b><u>2,904,640</u></b>
<b>Net Change in Cumulative Results of Operations</b>	<b>1,174,141,626</b>	<b>617,623,149</b>
<b>Increase (Decrease) in Unexpended Appropriations</b>	<b><u>(632,162)</u></b>	<b><u>(7,423,814)</u></b>
<b>Change in Net Position</b>	<b>1,173,509,464</b>	<b>610,199,335</b>
<b>Net Position - Beginning of Period</b>	<b><u>15,411,343,739</u></b>	<b><u>14,801,144,404</u></b>
<b>Net Position - End of Period</b>	<b><u><u>\$16,584,853,203</u></u></b>	<b><u><u>\$15,411,343,739</u></u></b>

The accompanying notes are an integral part of these financial statements.

**RAILROAD RETIREMENT BOARD  
COMBINED STATEMENT OF BUDGETARY RESOURCES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,**

	<u>1998</u>	<u>1997</u>
<b>Budgetary Resources:</b>		
Budget Authority	\$9,967,762,075	\$16,168,784,063
Unobligated Balance - Beginning of Period	15,613,929,541	14,774,730,566
Net Transfers	(93,022,000)	(93,122,001)
Spending Authority from Offsetting Collections	30,537,907	30,063,622
Adjustments	<u>(3,849,730)</u>	<u>(12,280,264)</u>
<b>Total Budgetary Resources</b>	<b><u>\$25,515,357,793</u></b>	<b><u>\$30,868,175,986</u></b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred	\$8,936,960,924	\$12,078,446,444
Unobligated Balances - Available	16,547,743,894	18,759,651,693
Unobligated Balances - Not Available	<u>30,652,975</u>	<u>30,077,849</u>
<b>Total, Status of Budgetary Resources</b>	<b><u>\$25,515,357,793</u></b>	<b><u>\$30,868,175,986</u></b>
<b>Outlays:</b>		
Obligations Incurred	\$8,936,960,924	\$12,078,446,444
Less: Spending Authority from Offsetting Collections and Adjustments	(34,638,798)	(34,923,476)
Obligated Balance, Net - Beginning of Period	3,688,928,186	3,661,999,521
Obligated Balance Transferred, Net	0	0
Less: Obligated Balance, Net - End of Period (Note)	<u>(775,871,426)</u>	<u>(515,438,881)</u>
<b>Total Outlays</b>	<b><u>\$11,815,378,886</u></b>	<b><u>\$15,190,083,608</u></b>
<b>Note: Net amount of budgetary resources obligated for undelivered orders at the end of the period</b>	<b><u>\$4,128,968</u></b>	<b><u>\$5,565,220</u></b>

The accompanying notes are an integral part of these financial statements.

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF FINANCING  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,**

	<u>1998</u>	<u>1997</u>
<b>Obligations and Nonbudgetary Resources</b>		
Obligations Incurred	\$8,682,826,501	\$8,656,383,368
Less: Spending Authority for Offsetting Collections and Adjustments	(31,884,155)	(32,016,624)
Financing Imputed for Cost Subsidies	<u>7,618,424</u>	<u>8,080,960</u>
Total Obligations as Adjusted, and Nonbudgetary Resources	<u>8,658,560,770</u>	<u>8,632,447,704</u>
<b>Resources That Do Not Fund Net Cost of Operations</b>		
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	1,436,251	2,907,509
Costs Capitalized on the Balance Sheet	<u>(1,226,270)</u>	<u>(2,286,154)</u>
Total Resources That Do Not Fund Net Cost of Operations	<u>209,981</u>	<u>621,355</u>
<b>Costs That Do Not Require Resources</b>		
Depreciation and Amortization	3,309,037	3,532,980
Other - Inventory Supplies Usages	<u>642,577</u>	<u>718,431</u>
Total Costs That Do Not Require Resources	<u>3,951,614</u>	<u>4,251,411</u>
<b>Financing Sources Yet to be Provided</b>		
Unfunded Annual Leave	<u>(31,203)</u>	<u>(294,389)</u>
<b>Net Cost of Operations (Note)</b>	<u><u>\$8,662,691,162</u></u>	<u><u>\$8,637,026,081</u></u>

**Note:** The amount of liabilities not covered by budgetary resources shown in the balance sheet are \$2,967,395,069 and \$3,015,075,579 for fiscal years 1998 and 1997, respectively.

The accompanying notes are an integral part of these financial statements.

**RAILROAD RETIREMENT BOARD  
STATEMENT OF CUSTODIAL ACTIVITY  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,**

	<u>1998</u>	<u>1997</u>
<b>Sources of Collections:</b>		
Reimbursement from Social Security Administration (SSA)	\$1,124,178,501	\$1,116,808,099
Accrual Adjustments	<u>26,358</u>	<u>35,713</u>
Total Revenue	<u>1,124,204,859</u>	<u>1,116,843,812</u>
<b>Disposition of Collections:</b>		
Payment of SSA Benefits	1,124,297,121	1,116,840,386
Amounts Yet to be Transferred/Paid	<u>(92,262)</u>	<u>3,426</u>
Total Disposition of Revenue	<u>1,124,204,859</u>	<u>1,116,843,812</u>
Net Custodial Activity	<u><u>\$0</u></u>	<u><u>\$0</u></u>

Note: Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals described in this section, monthly social security benefits on behalf of SSA. For the most part, the RRB is reimbursed in advance for the payment of benefits.

**The accompanying notes are an integral part of these financial statements**

**RAILROAD RETIREMENT BOARD  
NOTES TO FINANCIAL STATEMENTS  
FISCAL YEARS ENDED SEPTEMBER 30, 1998 AND 1997**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

Although the RRB is not subject to the Chief Financial Officers Act of 1990, the financial statements have been prepared to report the financial position and results of operations of the RRB, pursuant to the requirements of that Act. The financial statements were prepared in accordance with the principles and standards prescribed by GAO, OMB, FASAB, and Treasury, including OMB Bulletin 97-01 (as amended on November 20, 1998), which are generally accepted accounting principles for the Federal government.

The principal statements are comprised of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Financing (all prepared on a consolidated basis, which eliminates all significant interfund balances and transactions) and the Statement of Budgetary Resources, and Statement of Custodial Activity (prepared on a combined basis, which does not eliminate interfund balances and transactions). The unfunded actuarial liability is not presented within the financial statements but rather discussed in the notes to the financial statements in accordance with guidance received from OMB and GAO.

These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, that are used to monitor and control the RRB's use of budgetary resources.

**B. Reporting Entity**

The railroad retirement program was established under legislation enacted in 1934, 1935, and 1937, as amended, to create a system separate from the social security program legislated in 1935. The railroad retirement program and the administration of this program are financed through the following accounts:

! Railroad Retirement Account (8011) which was established to fund retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources.

! Social Security Equivalent Benefit Account (8010) which was established in FY 1985 to pay the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits.

! Railroad Retirement Supplemental Account (8012) which was established to pay supplemental annuities to career rail employees from payroll taxes.

! Dual Benefits Payments Account (0111) which was established to finance the phase-out costs of certain vested dual benefits from general appropriations.

! Federal Payments to the Railroad Retirement Accounts (0113) was established in conjunction with the implementation of the Railroad Retirement Solvency Act of 1983. Section 417 of the act amended the Railroad Retirement Act to provide for the reimbursement of unnegotiated benefit checks to the extent that such reimbursements are provided for, in advance, in appropriation acts. This account is the vehicle through which such appropriations are made. Under provisions of the Competitive Equality Banking Act of 1987, funds for the principal amount of uncashed checks are appropriated to the Treasury and then transferred directly to the appropriate railroad retirement accounts. As a result, in FY 1991, the RRB began receiving credits to this account for only the interest portions of the uncashed check transfers. This account is also used by OMB as a conduit for transferring certain income taxes on benefits.



! Limitation on Administration Account (8237) which was established to pay salaries and expenses to administer the railroad retirement program. This account is financed by the Railroad Retirement Account, Social Security Equivalent Benefit Account, and the Railroad Retirement Supplemental Account. Effective October 1, 1996, this account is also financed by the Railroad Unemployment Insurance Trust Fund, Administrative Expenses and is used to pay salaries and expenses to administer the railroad unemployment-sickness insurance benefit program.

The railroad unemployment and sickness insurance program was established under the Railroad Unemployment Insurance Act of 1938, as amended, to pay unemployment insurance benefits to railroad workers who are unemployed but ready, willing, and able to work and sickness insurance benefits to railroad workers who are unable to work because of illness, injury or pregnancy. Benefits and administration of this program are financed from the following accounts:

! Railroad Unemployment Insurance Trust Fund, Benefit Payments (8051.001) which was established to pay unemployment and sickness insurance benefits from contributions by railroad employers.

! Railroad Unemployment Insurance Trust Fund, Administrative Expenses (8051.002) which was established to pay salaries and expenses to administer the program. This fund is financed by contributions from railroad employers. Effective October 1, 1996, funds are transferred from this fund based on cost accounting estimates and records to the Limitation on Administration Account (8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program.

! Included under the railroad unemployment and sickness insurance program is the Regional Rail Protective Account (0110) which is a transfer appropriation account established under Title V of the Regional Rail Reorganization Act of 1973, amended by the Northeast Rail Service Act of 1981. This account was established to pay benefits to certain classes of Consolidated Rail Corporation employees and employees of acquiring railroads and provide funds for administering the program. These funds were appropriated to the U. S. Department of Transportation and transferred to the RRB which was responsible for administering the program. This program has now been closed and funds remaining in this account consist of collections of benefit overpayments.

The RRB maintains deposit and other funds which are funded by both the railroad retirement program and the railroad unemployment insurance program. These funds are as follows:

! Limitation on the Office of Inspector General (8018) which was established to fund the administration of the Inspector General's Office.

! Special Management Improvement Fund (8236) which was established in FY 1992 as a result of an agreement with OMB to complete certain improvements in claims processing, debt collection, fraud control, tax accounting, trust fund integrity, and information systems over a 5-year period. The RRB successfully completed the program in fiscal year 1996 at a total cost of \$12,375,100.

! Savings Bonds Allotment (6050), City and State Taxes (6275), and Suspense Deposits (6875) which were established as holding accounts for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

### **C. Budgets and Budgetary Accounting**

Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF 132) in accordance with OMB Circular A-34 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, financial transactions are recorded against the object class codes when obligations

are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF 133) to OMB reporting all obligations incurred against the amounts apportioned.

#### **D. Basis of Accounting**

Except for the Dual Benefits Payments Account which is on a cash basis of accounting as required by law, all transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions. The Statements of Budgetary Resources and Custodial Activity were prepared on a combined basis in which significant interfund balances and transactions were not eliminated.

#### **E. Financing Sources**

The RRB receives the majority of the funding needed to support the railroad retirement and unemployment and sickness insurance programs from payroll taxes on railroad employers and employees, the social security trust funds under a financial interchange (FI) between the two systems, and interest on investments. General Fund appropriations are provided to finance vested dual benefits, income taxes on benefits, and interest on unnegotiated checks. Administrative expenses are financed by the trust funds and are appropriated annually by the Congress.

General Fund appropriations are recognized as financing sources when received. FI transactions, taxes, and interest on investments are recognized as financing sources when earned. For FY's 1998 and 1997, transfers-in from the financial interchange between RRB and SSA represent the estimate of the transfer to be made from SSA to RRB upon final settlement. FY 1998 is net of a \$24.4 million adjustment for the FI final settlement for FY 1997. FY 1997 is net of a \$75.5 million adjustment for the FI final settlement for FY 1996. The actual FI transfer for FY 1997 in June 1998 was less than the estimate primarily due to an increase in benefit payments, and the actual FI transfer for FY 1996 in June 1997 was less than the estimate primarily due to an adjustment for pre-1957 Social Security Military Service. Historically, there have been substantial differences between our estimates and the actual FI settlement amounts (see notes 4 and 9 for details).

#### **F. Annual Leave**

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each quarter the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave does not vest and is expensed as taken.

#### **G. Retirement Plan**

##### **Background**

Although the RRB funds a portion of pension benefits for its employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) and makes the necessary payroll withholdings from them, the RRB is not required to disclose the assets of the systems or the actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting such amounts is the direct responsibility of the Office of Personnel Management (OPM).

The cost of post-retirement benefits for retired employees and the reporting of such amounts are also the direct responsibility of OPM.

#### Civil Service Retirement System

During FY's 1998 and 1997, the majority of the RRB's employees, 58.0 percent and 58.9 percent, respectively, were covered by the CSRS, a defined benefit plan. Total RRB (employer) matching contributions (9.01 percent of base pay for law enforcement employees and 8.51 percent for all others) to CSRS for all employees was \$3.3 million and \$2.8 million in FY's 1998 and 1997, respectively.

#### Federal Employees Retirement System

On January 1, 1987, the FERS, a defined contribution plan, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 1998, 42.0 percent of the RRB's employees were covered under FERS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the Federal Government's Thrift Savings Plan (TSP) for each employee. Under CSRS, employees can invest up to 5 percent of their base pay in the TSP. Employees under FERS can invest up to 10 percent of base pay, plus the RRB will automatically contribute 1 percent of base pay and then match any employee contribution up to an additional 4 percent of base pay. During FY's 1998 and 1997, total RRB (employer) contributions to FERS were \$3.0 million and \$3.2 million, respectively. Additional RRB contributions to the TSP in FY's 1998 and 1997 totaled \$0.7 million and \$0.7 million, respectively.

## 2. FUND BALANCES WITH TREASURY

Fund balances with Treasury at September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Social Security Equivalent Benefit Account	\$ 0	\$ 0
Railroad Retirement Account	0	0
Railroad Retirement Supplemental Account	0	0
Limitation on Administration	538,409	535,199
Dual Benefits Payments Account	26,760,001	27,040,562
Federal Payments to Railroad Retirement Accounts	492,058	932,687
Railroad Unemployment Insurance Trust Fund - Benefit Payments	66,611,193	70,764,284
Administrative Expenses	7,848,859	4,882,940
Regional Rail Protective Account	5,247	127,882
Limitation on the Office of Inspector General	321,228	654,480
Special Management Improvement Fund	52,765	112,923
City and State Taxes	11,746	166,212
Savings Bonds Allotment	10,064	43,532
Suspense Deposits	<u>27,584</u>	<u>17,014</u>
Total	<u>\$102,679,154</u>	<u>\$105,277,715</u>

For the RUI Trust Fund - Benefit Payments and Administrative Expenses, only a small portion of the cash is in non-interest bearing accounts. Cash not needed immediately for unemployment insurance benefits or operating expenses is held in the Federal Unemployment Insurance Trust Fund and invested by the Secretary of the Treasury. The fund earned an average rate of return of 6.78 percent in FY 1998 and 6.80 percent in FY 1997, of which the RRB earned \$4,621,379 and \$6,931,882, respectively, as its pro-rata shares. All other cash shown above is being held in non-interest bearing accounts and, except for the Dual Benefits Payments Account, is used to pay current obligations. The RRB does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury.

### 3. INVESTMENTS

Trust fund balances not immediately required for the payment of benefits may only be invested "in interest earning obligations of the United States or in obligations guaranteed as to both principal and interest by the United States" as provided in Section 15(e) of the Railroad Retirement Act of 1974. Investment securities are stated at cost, adjusted for net unamortized premiums/(discounts) of (\$5,096,818,942) and (\$3,664,999,415) at September 30, 1998, and 1997, respectively. Amortization of market-based notes and bonds premiums/discounts was computed using the compound method in which total premiums/discounts are prorated to interim periods on the basis of a constant rate (as opposed to a constant dollar amount), so that a uniform rate of interest income on the notes/bonds is recognized in the accounts. All amortization of premiums and discounts is recognized as an adjustment to interest on investments.

	<u>At September 30, 1998</u>	
	<u>Book Value</u>	<u>Market Value</u>
5.00% par value specials maturing on October 1, 1998	\$ 9,816,987,000	\$ 9,816,987,000
Zero coupon bonds with maturities ranging from August 15, 2006, to November 15, 2014, and market yields ranging from 4.74% to 5.44%.	4,528,129,776	5,358,750,175
Market-based notes and bonds with maturities ranging from August 15, 2004, to February 15, 2016, and market yields ranging from 4.46% to 5.09%.	<u>2,368,851,282</u>	<u>2,856,198,439</u>
Subtotal	16,713,968,058	18,031,935,614
Accrued interest - Par value	24,181,203	24,181,203
- Market-based	<u>45,342,187</u>	<u>45,342,187</u>
Total	<u>\$16,783,491,448</u>	<u>\$18,101,459,004</u>

	<u>At September 30, 1997</u>	
	<u>Book Value</u>	<u>Market Value</u>
6.25% par value specials maturing on October 1, 1997	\$ 9,194,168,000	\$ 9,194,168,000
Zero coupon bonds with maturities ranging from August 15, 2006, to November 15, 2014, and market yields ranging from 6.27% to 6.56%.	3,107,665,842	3,321,769,947
Market-based notes and bonds with maturities ranging from August 15, 2004, to February 15, 2016, and market yields ranging from 6.14% to 6.45%.	<u>3,272,334,743</u>	<u>3,535,857,813</u>
Subtotal	15,574,168,585	16,051,795,760
Accrued interest - Par value	42,613,998	42,613,998
- Market-based	<u>54,892,969</u>	<u>54,892,969</u>
Total	<u>\$15,671,675,552</u>	<u>\$16,149,302,727</u>

#### 4. ACCOUNTS RECEIVABLE - INTRAGOVERNMENTAL

Accounts receivable - Intragovernmental at September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Financial interchange - Principal	\$3,519,000,000	\$3,519,800,000
Financial interchange - Interest	145,600,000	157,600,000
Taxes	131,235,000	145,344,927
Other Federal agencies	<u>403,345</u>	<u>301,987</u>
Total	<u>\$3,796,238,345</u>	<u>\$3,823,046,914</u>

The financial interchange between the RRB and SSA is intended to place the social security (FOASI/DI) trust funds in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts since its inception. To accomplish this objective, both the amount of social security payroll and income taxes relating to railroad employment and the amount of additional benefits and administrative expenses which social security would have paid to railroad retirement beneficiaries during the same fiscal year are computed. In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit and administrative expense reimbursements exceed payroll and income taxes, the difference, with an allowance for interest, is transferred from the social security trust funds to the SSEB Account. If taxes exceed benefit and administrative expense reimbursements (this has not happened since 1951), a transfer would be made in favor of the social security trust funds. The amounts shown above for Financial interchange - Principal, and interest in the FY 1998 column, represents the estimated amounts due the RRB from SSA under the FI program. Historically, differences have occurred between the RRB's estimates and the actual amount of the FI settlement. A comparison of these differences for the past 4 fiscal years is shown below:

<u>Fiscal Year</u>	<u>Actual</u>	<u>Estimate</u>	<u>Actual vs. Estimate</u>
1997	\$3,650,600,000	\$3,677,400,000	(\$26,800,000)
1996	3,581,900,000	3,642,400,000	(60,500,000)
1995	3,393,100,000	3,567,100,000	(174,000,000)
1994	3,944,700,000	3,491,800,000	452,900,000

The large variation in FY 1994 is a result of an SSA audit recommendation regarding presumed filing for both retirement and spouse benefits when a beneficiary files for a reduced age benefit. For example, SSA treats an application for a reduced age spouse benefit as a simultaneous application for a reduced age employee benefit. SSA thereby ensures that the reduced age spouse cannot file at age 65 for an unreduced employee benefit. Due to the method used to compute age reductions, a reduced age spouse with his/her own employee benefit will receive a larger benefit than a reduced age spouse without his/her own employee benefit. Consequently, the financial interchange benefit generally increased for spouses we deemed to have filed for a reduced age employee benefit. By agreement with SSA, we considered presumed filing for annuities beginning 1978 and later.

#### 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net at September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Accounts receivable - Benefit overpayments	\$ 55,118,424	\$ 63,729,677
Accounts receivable - Past due RUI contributions	377,342	542,242
Accounts receivable - Interest, penalty and administrative costs	<u>3,887,827</u>	<u>3,762,650</u>
Total	<u>59,383,593</u>	<u>68,034,569</u>
Less: Allowances for doubtful accounts	<u>17,824,159</u>	<u>20,121,022</u>
Net Total	<u>\$ 41,559,434</u>	<u>\$47,913,547</u>

Of the total September 30, 1998, receivables before the allowance for doubtful accounts, \$46,401,860 or 78.1 percent is for the railroad retirement program and \$12,981,733 or 21.9 percent is for the railroad unemployment insurance program. Of the total allowance for doubtful accounts, \$15,191,969 or 85.2 percent is for the retirement program and \$2,632,190 or 14.8 percent is for the unemployment insurance program. The allowance for doubtful accounts for the railroad retirement program was calculated by (1) stratifying the accounts receivable into twelve categories, (2) analyzing each category using sampling and historical data, (3) determining the percentage of amounts due to the RRB that would probably not be collected, (4) applying the determined percentages against accounts receivable for each category, and (5) adding the amounts derived for each category to obtain the total allowance for doubtful accounts. The allowance for doubtful accounts for the unemployment insurance program was calculated based on the ages of accounts receivable and historical information.

The major causes of benefit overpayments in the railroad retirement program are as follows:

! Death and/or no current connection cases represented 62.5 percent of the retirement receivables established in FY 1998. Included in this category are erroneous payments issued to a beneficiary after death or to a spouse when an annuitant dies without a current connection.

! Social Security entitlement cases represented 20.3 percent of the retirement receivables established in FY 1998. Included in this category are overpayments resulting from annuitants initially becoming entitled to or receiving increases in their social security benefits and not having their railroad retirement annuity properly reduced.

! Excess earnings cases represented 5.9 percent of the retirement receivables established in FY 1998. Included in this category are overpayments resulting from earnings in excess of the annual or monthly exempt amounts and annuitants returning to work for their last pre-retirement nonrailroad employer.

! Debts resulting from public service pensions, adjudication errors, loss of entitlement, and other causes represented the balance of retirement receivables established in FY 1998.

The major causes of benefit overpayments in the railroad unemployment insurance program are:

! When an employee is awarded damages or receives a settlement of an injury, any sickness insurance benefits paid for the same injury are recoverable from the settlement. These receivables represented 56.1 percent of the unemployment and sickness insurance benefit overpayments established in FY 1998.

! When an employee receives unemployment or sickness insurance benefits and decides to retire retroactively, the unemployment or sickness benefits paid after the retroactive annuity beginning date are fully recoverable, in most instances, from the retirement accrual payment. These receivables represented 31.0 percent of the unemployment and sickness insurance benefit overpayments established in FY 1998.

! State wage match cases represented 5.2 percent of the unemployment and sickness insurance benefit overpayments established in FY 1998. Included in this category are overpayments resulting from the debtor working or receiving vacation pay while receiving benefits.

! When an employee receives unemployment or sickness insurance benefits and later is paid for time lost for the same period, the railroad employer is required to withhold an amount equal to the unemployment or sickness insurance and pay this amount to RRB. These receivables represented 4.3 percent of the unemployment and sickness insurance benefit overpayments established in FY 1998.

## **6. OPERATING MATERIALS AND SUPPLIES**

Operating materials and supplies are valued on the weighted average basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

## 7. PROPERTY AND EQUIPMENT, NET

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is \$5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

<u>Classes of Fixed Assets</u>	<u>At September 30, 1998</u>			
	<u>Service Lives</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Structures, facilities and leasehold improvements	15 years	\$ 2,644,466	\$ 1,610,407	\$ 1,034,059
ADP software	5 years	18,818,556	14,573,769	4,244,787
Equipment	5-10 years	9,283,327	7,241,850	2,041,477
		<u>\$30,746,349</u>	<u>\$23,426,026</u>	<u>\$ 7,320,323</u>

<u>Classes of Fixed Assets</u>	<u>At September 30, 1997</u>			
	<u>Service Lives</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Structures, facilities and leasehold improvements	15 years	\$ 2,382,452	\$ 1,340,288	\$ 1,042,164
ADP software	5 years	18,382,439	12,028,370	6,354,069
Equipment	5-10 years	11,768,052	9,531,781	2,236,271
Work in process		1,352,352	0	1,352,352
		<u>\$33,885,295</u>	<u>\$22,900,439</u>	<u>\$10,984,856</u>

Under Statement of Federal Financial Accounting Standard (SFFAS) No. 6, paragraph 27, internally developed software costs are to be expensed when incurred. Of the \$1,352,352 shown as work in process at September 30, 1997, \$420,776 was completed and capitalized during fiscal year 1998. The balance of \$931,576 was written-off as a prior period adjustment (see Note 21).

## 8. OTHER ASSETS

Other Governmental Assets at September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Title VII benefit overpayments	\$ 11,725	\$ 16,972
Accrued estimated unemployment insurance contributions receivables	25,941,000	7,776,000
Other	938	333
Total	<u>\$25,953,663</u>	<u>\$7,793,305</u>

## 9. ACCOUNTS PAYABLE - INTRAGOVERNMENTAL

Accounts payable - Intragovernmental at September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Accrued expenses	\$ 666,566	\$ 489,741
Accounts payable - FHI Principal	392,500,000	384,600,000
Accounts payable - FHI Interest	18,450,000	18,700,000
Accounts payable - Other Federal Agencies	87,192,255	126,107,220
Total	<u>\$498,808,821</u>	<u>\$529,896,961</u>

The amount shown above for FHI principal and interest, represents the estimated amounts payable by the RRB to HCFA under the FI program for FY 1998. Historically, differences have occurred between the RRB's estimates and the actual amount paid to HCFA under the FI settlement. A comparison of these differences for the past 4 fiscal years is shown below:

<u>Fiscal Year</u>	<u>Actual</u>	<u>Estimate</u>	<u>Actual vs. Estimate</u>
1997	\$400,900,000	\$403,300,000	(\$2,400,000)
1996	400,600,000	385,630,000	14,970,000
1995	382,900,000	393,110,000	(10,210,000)
1994	379,200,000	389,570,000	(10,370,000)

#### 10. OTHER GOVERNMENTAL LIABILITIES

Other governmental liabilities are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of \$6,032,787 and \$5,401,552, at September 30, 1998, and 1997, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the RRB determines that entitlement no longer exists or another check is issued to the beneficiary.

The amounts also include accrued payroll and benefits of \$3,664,491 and \$3,313,821, at September 30, 1998, and 1997, respectively.

#### 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES - INTRAGOVERNMENTAL DEBT

Intragovernmental debt results from borrowing from Treasury to fund benefit payments from the SSEB Account.

	<u>1998</u>	<u>1997</u>
Beginning balance	\$ 2,910,600,000	\$ 2,889,600,000
New borrowings	3,138,500,000	3,175,800,000
Accrued interest	96,934,660	99,183,967
Repayments	(3,183,900,000)	(3,154,800,000)
Ending balance	<u>\$ 2,962,134,660</u>	<u>\$ 3,009,783,967</u>

#### 12. OTHER LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Other liabilities not covered by budgetary resources represent unfunded annual leave.

#### 13. UNEXPENDED APPROPRIATIONS

Unexpended appropriations for the fiscal year ended September 30, consisted of:

	<u>1998</u>	<u>1997</u>
Unobligated - Available	\$ 4,811,488	\$ 7,088,770
Unobligated - Unavailable	<u>22,440,571</u>	<u>20,884,479</u>
Total	<u>\$27,252,059</u>	<u>\$27,973,249</u>



#### **14. CUMULATIVE RESULTS OF OPERATIONS**

Under the Railroad Retirement Act of 1974, appropriations were authorized from general revenues of the Treasury for the phase-out costs of vested dual benefits. Between 1974 and 1981, the amounts appropriated were substantially less than the costs incurred and, therefore, the excess costs were financed by the Railroad Retirement (RR) Account. The 1983 amendments provided that the shortfall in appropriations prior to October 1981 be repaid to the RR Account in three installments. Installments of \$629 million, \$706 million, and \$793 million were paid in the form of loans on January 1, 1984, 1985, and 1986, respectively. The 1983 amendments further provided that the loans are repayable only to the extent that the Congress appropriates the money to the RRB for that purpose. As of September 30, 1998, the Congress has not appropriated any money to repay these loans; and we anticipate that an appropriation will not be forthcoming anytime within the near future. Consequently, a total of \$2,128 million has been placed on the books as donated capital and is reflected in the cumulative results of operations.

Included in the cumulative results of operations for FY's 1998 and 1997 were undelivered orders of \$4,128,968 and \$5,565,220, respectively.

#### **15. INTEREST - TREASURY BORROWINGS**

The interest - Treasury borrowings represent the interest expense on the advances from the financial interchange.

#### **16. SALARIES AND EXPENSES AND BENEFIT PAYMENTS**

The details of salaries and expenses, and benefit payments by budget object code are shown in the supplementary schedules.

#### **17. APPROPRIATIONS USED**

Appropriations used for the fiscal year ended September 30 was comprised of amounts appropriated to the following funds:

	<u>1998</u>	<u>1997</u>
Dual Benefits Payments Account	\$188,899,484	\$206,359,642
Federal Payments to Railroad Retirement Accounts	<u>50,000</u>	<u>300,000</u>
Total	<u>\$188,949,484</u>	<u>\$206,659,642</u>

The amounts shown for the Dual Benefits Payments Account are net of Federal income tax transfers of \$12,000,000 and \$10,000,000, for FY's 1998 and 1997, respectively.

#### **18. TAXES AND OTHER NON-EXCHANGE REVENUES**

Taxes and other non-exchange revenues for the fiscal year ended September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Tier I	\$ 2,054,586,498	\$ 1,986,932,345
Tier II	2,532,924,151	2,323,763,075
Supplemental taxes	123,431,201	100,626,063
Federal income taxes	302,000,000	248,000,000
Railroad unemployment insurance contributions	86,465,660	29,386,427
Carriers' refunds principal	(27,531,436)	(11,953,862)
Other non-exchange revenues	<u>1,374,386</u>	<u>1,488,310</u>
Total	<u>\$ 5,073,250,460</u>	<u>\$ 4,678,242,358</u>

The Internal Revenue Service (IRS) is responsible for collecting all railroad retirement taxes under Chapter 22 and Chapter 23A of the Internal Revenue Code. Railroad employers pay retirement taxes either through the Federal Tax Deposit System or electronically through the Electronic Federal Tax Payment System (EFTPS), FEDWIRE system or RRBLINK system. For September 30, 1998, approximately 39.7 percent, 20.6 percent and 28.3 percent of tax receipts are received through EFTPS, FEDWIRE and the RRBLINK systems, respectively. Treasury receives daily deposit information from various sources, such as the Federal Reserve Bank and the IRS. These deposits are identified by type of tax. The amounts identified as railroad retirement are split in ratios and credited to different trust fund accounts on the following work day. The funds are automatically invested in par value specials based on instructions from the RRB.

Railroad employees and employers pay Tier I taxes which, by law are the same as social security taxes. The rate of 7.65 percent includes 6.20 percent for retirement and disability and 1.45 percent for Medicare hospital insurance. The Tier I taxes shown above, therefore, include Medicare taxes which are returned to the FHI trust fund at the time of the FI settlement.

The RRB is responsible for collecting all railroad unemployment insurance contributions. Currently, most employers remit these contributions electronically through the RRBLINK system. Amounts collected are credited to the Railroad Unemployment Insurance Account and the Limitation on Railroad Unemployment Insurance Administration Fund in the Federal Unemployment Insurance Account maintained by Treasury. Upon receipt, the Treasury automatically invests these funds.

#### 19. TRANSFERS-IN

Transfers-in for the fiscal year ended September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Interest on investments and uncashed checks	\$ 989,289,171	\$ 999,148,643
Interest on Financial Interchange advances	6,562,023	8,116,725
Financial Interchange transfer - Principal and interest	3,806,265,000	3,782,195,000
Gain on sale of securities	<u>198,054,202</u>	<u>9,953,380</u>
Total	<u>\$ 5,000,170,396</u>	<u>\$ 4,799,413,748</u>

#### 20. TRANSFERS-OUT

Transfers-out for the fiscal year ended September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Interest expense to FHI	\$ 38,550,000	\$ 40,397,000
FHI Financial Interchange transfer	388,500,000	396,360,000
Carriers' refunds interest	<u>5,174,400</u>	<u>3,895,118</u>
Total	<u>\$ 432,224,400</u>	<u>\$ 440,652,118</u>

#### 21. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments for the fiscal year ended September 30 consisted of:

	<u>1998</u>	<u>1997</u>
Work in process written off per SFFAS No. 6	\$ (931,576)	\$ 0
Adjustment of contingent liability	<u>0</u>	<u>2,904,640</u>
Total	<u>\$ (931,576)</u>	<u>\$ 2,904,640</u>

## **22. CONTINGENT LIABILITIES**

The RRB is involved in the following actions:

! Chicago Milwaukee Corporation filed a claim for refund of taxes paid for years 1985 and 1986 under the Railroad Retirement Tax Act on the basis that payments by a Trustee of a bankrupt railroad in satisfaction of wage claims by former employees were not compensation subject to taxation under the Act. The Federal Claims Court dismissed the suit, and the taxpayer appealed to the Federal Circuit Court. The Federal Circuit reversed the Claims Court's decision and remanded the case back to the Claims court. On April 23, 1996, the court held that payments in question were compensation under the RRTA and dismissed Chicago Milwaukee's claim. Chicago Milwaukee appealed this decision to the Federal Circuit Court. Oral argument was held on April 8, 1997. On April 13, 1998, the Federal Circuit affirmed the Claims Court. It is remotely possible that the RR Account and SSEB Account are contingently liable for an estimated amount of \$11.3 million.

! CSX Transportation, et al, filed a claim for refund of RRT Act or FICA taxes paid on lump-sum separation payments on the theory that such payments were supplemental unemployment benefits. It is remotely possible that the RR Account and SSEB Account are contingently liable for an estimated amount of \$280 million.

! Several Class I railroads have filed claims for refund of taxes with the IRS. It is remotely possible that the RR Account and SSEB Account are contingently liable for an estimated amount of \$202.5 million. Under the anti-disclosure provisions of the IRS code, we are not permitted to disclose any details related to these claims.

! There are 15 pending cases involving claims-for-benefits under the Railroad Retirement Act. It is reasonably possible that the RR Account and SSEB Account are contingently liable for an estimated amount of \$200,000 (exclusive of potential liability for attorney's fee).

Because none of the above cases has been categorized as probable, no provision has been made in the accompanying financial statements.

## **23. ACTUARIAL PROJECTION**

Table 1 presents an actuarial analysis of the financial position of the RR Account. The figures in the table are based on the 1998 Section 502 Report extended through calendar year 2071. The present values in Table 1 are based on estimates of contributions and expenditures through the year 2071. The estimates include contributions and expenditures related to future new entrants as well as to former and present railroad employees. The present values are computed on the basis of economic and demographic assumptions, and employment assumption II, as used in the 1998 Section 502 Report. Under employment assumption II, starting with an average 1997 employment of 252,000; (1) railroad passenger employment would level at 44,000, and (2) the employment base, excluding passenger employment, would decline at a constant annual rate of 3.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

The 20th Actuarial Valuation includes an illustration of the minimum funding requirements if the railroad retirement system had to satisfy certain standards specified in the Employees Retirement Income Security Act (ERISA) on the valuation date (December 31, 1995). Under the illustration, there would have been an "unfunded actuarial accrued liability" for former and present railroad employees in excess of \$38 billion. Under ERISA provisions, the unfunded actuarial accrued liability would have to be liquidated by level annual payments over a 30-year period. The unfunded actuarial accrued liability is not an "actuarial deficiency" to be compared with the actuarial deficiency in the footnote to Table 1; rather, it is an indication, based on ERISA funding methods, of the degree to which the financial position of the railroad retirement system is currently deficient in terms of funding benefits for present and former employees over their working lifetimes.

While the present value method provides information on the overall condition of the railroad retirement system projected through the year 2071, it does not provide information about the level of the account balance at any selected point of time. The pattern of income and expenditures, together with interest earned on account balances, determines the size of the account at any given point in time. Projections of cash flows and account balances may be found in the annual actuarial reports.

**Table 1. Actuarial Position of the Railroad Retirement Account  
At September 30, 1998  
(Dollars in Millions)**

		<u>Present Value</u>
Actuarial Balance at September 30, 1998		\$ 15,252 *
Financing Sources October 1, 1998, to December 31, 2071		
Retirement taxes	\$ 53,794	
Transfers from supplemental account	544	
Available from SSEB Account	2,836	
Income tax on benefits	4,747	
Loan to supplemental account	<u>0</u>	
Total		\$ 61,921
Expenditures October 1, 1998, to December 31, 2071		
Benefit payments	\$ 71,733	
Administrative expenses	<u>1,357</u>	
Total		<u>\$ 73,090</u>
Deficiency of Financing Sources over Expenditures		(11,169)**
Actuarial Surplus at September 30, 1998		<u>\$ 4,083***</u>

\* This balance differs from the actual net position of the Railroad Retirement Account of \$14,609 million because of adjustments resulting from present value calculations. For example, the interest rates used to calculate present values reflect expected earnings on par value specials. Because September 30, 1998, market-based note and bond holdings have yields higher than these interest rates, the present value of future income from these holdings (coupons and maturity values) is greater than the book value of these holdings reflected in the trust fund balance shown in the Statement of Changes in Net Position.

\*\* This figure takes into account future entrants as well as former and present employees.

\*\*\* This amount is based on employment assumption II. Amounts based on three sets of employment assumptions used in the 1998 Section 502 Report Valuation range from (\$4,964) million to \$13,505 million.

## **SUPPLEMENTARY SCHEDULES**

RAILROAD RETIREMENT BOARD  
RAILROAD RETIREMENT PROGRAM  
COMBINING BALANCE SHEET  
AS OF SEPTEMBER 30, 1998

	Social Security Equivalent Benefit Account	Railroad Retirement Account	Railroad Retirement Supplemental Account	Limitation On Administration	Dual Benefits Payments Account	Federal Payments to Railroad Retirement Accounts	Combined Totals
<b>ASSETS</b>							
<b>Intragovernmental Assets:</b>							
Fund Balance with Treasury	\$0	\$0	\$0	\$538,409	\$26,760,001	\$492,058	\$27,790,468
Investments	2,010,325,649	14,729,848,621	43,317,178	0	0	0	16,783,491,448
Accounts Receivable	3,714,397,035	162,710,491	9,607,000	13,593,400	0	0	3,900,307,926
<b>Total Intragovernmental</b>	<b>5,724,722,684</b>	<b>14,892,559,112</b>	<b>52,924,178</b>	<b>14,131,809</b>	<b>26,760,001</b>	<b>492,058</b>	<b>20,711,589,842</b>
Accounts Receivable, Net	0	31,046,148	163,743	0	0	0	31,209,891
Operating Materials and Supplies	0	0	0	267,451	0	0	267,451
Property and Equipment	0	0	0	7,312,313	0	0	7,312,313
Other Assets	0	0	0	938	0	0	938
<b>TOTAL ASSETS</b>	<b>\$5,724,722,684</b>	<b>\$14,923,605,260</b>	<b>\$53,087,921</b>	<b>\$21,712,511</b>	<b>\$26,760,001</b>	<b>\$492,058</b>	<b>\$20,750,380,435</b>
<b>LIABILITIES</b>							
<b>Liabilities Covered By Budgetary Resources:</b>							
<b>Intragovernmental Liabilities:</b>							
Accounts Payable	\$546,217,851	\$55,644,839	\$2,639,887	\$659,349	\$0	\$0	\$605,161,926
Other Intragovernmental Liabilities	0	0	0	711,098	0	0	711,098
<b>Total Intragovernmental</b>	<b>546,217,851</b>	<b>55,644,839</b>	<b>2,639,887</b>	<b>1,370,447</b>	<b>0</b>	<b>0</b>	<b>605,873,024</b>
Accounts Payable	0	0	0	925,583	0	0	925,583
Other Governmental Liabilities	429,899,392	258,488,041	6,440,738	2,875,638	0	0	697,703,809
<b>Total Liabilities Covered By Budgetary Resources</b>	<b>976,117,243</b>	<b>314,132,880</b>	<b>9,080,625</b>	<b>5,171,668</b>	<b>0</b>	<b>0</b>	<b>1,304,502,416</b>
<b>Liabilities Not Covered By Budgetary Resources:</b>							
<b>Intragovernmental Liabilities:</b>							
Debt	2,962,134,660	0	0	0	0	0	2,962,134,660
<b>Total Intragovernmental</b>	<b>2,962,134,660</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,962,134,660</b>
Other Governmental Liabilities	0	0	0	5,027,098	0	0	5,027,098
<b>Total Liabilities Not Covered By Budgetary Resources</b>	<b>2,962,134,660</b>	<b>0</b>	<b>0</b>	<b>5,027,098</b>	<b>0</b>	<b>0</b>	<b>2,967,161,758</b>
<b>Total Liabilities</b>	<b>3,938,251,903</b>	<b>314,132,880</b>	<b>9,080,625</b>	<b>10,198,766</b>	<b>0</b>	<b>0</b>	<b>4,271,664,174</b>
<b>NET POSITION</b>							
Unexpended Appropriations	0	0	0	0	26,760,001	492,058	27,252,059
Cumulative Results of Operations	1,786,470,781	14,609,472,380	44,007,296	11,513,745	0	0	16,451,464,202
<b>Total Net Position</b>	<b>1,786,470,781</b>	<b>14,609,472,380</b>	<b>44,007,296</b>	<b>11,513,745</b>	<b>26,760,001</b>	<b>492,058</b>	<b>16,478,716,261</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$5,724,722,684</b>	<b>\$14,923,605,260</b>	<b>\$53,087,921</b>	<b>\$21,712,511</b>	<b>\$26,760,001</b>	<b>\$492,058</b>	<b>\$20,750,380,435</b>

**RAILROAD RETIREMENT BOARD  
RAILROAD RETIREMENT PROGRAM  
COMBINING STATEMENT OF NET COST  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998**

	<b>Social Security Equivalent Benefit Account</b>	<b>Railroad Retirement Account</b>	<b>Railroad Retirement Supplemental Account</b>	<b>Limitation On Administration</b>	<b>Dual Benefits Payments Account</b>	<b>Federal Payments to Railroad Retirement Accounts</b>	<b>Combined Totals</b>
<b>COSTS</b>							
<b>INTRAGOVERNMENTAL</b>							
Interest Expense - Treasury Borrowing	\$243,862,922	\$0	\$0	\$0	\$0	\$0	\$243,862,922
Transfers-out	0	0	0	0	0	254,134,423	254,134,423
Salaries and Expenses	0	0	0	22,368,572	0	0	22,368,572
	<u>243,862,922</u>	<u>0</u>	<u>0</u>	<u>22,368,572</u>	<u>0</u>	<u>254,134,423</u>	<u>520,365,917</u>
<b>PUBLIC</b>							
Benefit Payments - RRB	5,101,130,059	2,876,561,792	78,330,670	0	200,904,089	0	8,256,926,610
Salaries and Expenses	0	2,288	0	71,661,279	0	0	71,663,567
	<u>5,101,130,059</u>	<u>2,876,564,080</u>	<u>78,330,670</u>	<u>71,661,279</u>	<u>200,904,089</u>	<u>0</u>	<u>8,328,590,177</u>
 Total Costs	 5,344,992,981	 2,876,564,080	 78,330,670	 94,029,851	 200,904,089	 254,134,423	 8,848,956,094
<b>EARNED REVENUES</b>							
Reimbursement from HCFA	0	0	0	4,341,467	0	0	4,341,467
	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,341,467</u>	<u>0</u>	<u>0</u>	<u>4,341,467</u>
<b>NET PROGRAM COSTS</b>	<b>5,344,992,981</b>	<b>2,876,564,080</b>	<b>78,330,670</b>	<b>89,688,384</b>	<b>200,904,089</b>	<b>254,134,423</b>	<b>8,844,614,627</b>
<b>COST NOT ASSIGNED TO PROGRAMS</b>							
Other Expenses - Federal Employee Benefits	0	0	0	7,316,586	0	0	7,316,586
Less Earned Revenues Not Attributed to Programs	0	2,389	0	63,117	0	0	65,506
	<u>0</u>	<u>2,389</u>	<u>0</u>	<u>63,117</u>	<u>0</u>	<u>0</u>	<u>65,506</u>
<b>NET COST OF OPERATIONS</b>	<b><u>\$5,344,992,981</u></b>	<b><u>\$2,876,561,691</u></b>	<b><u>\$78,330,670</u></b>	<b><u>\$96,941,853</u></b>	<b><u>\$200,904,089</u></b>	<b><u>\$254,134,423</u></b>	<b><u>\$8,851,865,707</u></b>

**RAILROAD RETIREMENT BOARD  
RAILROAD RETIREMENT PROGRAM  
COMBINING STATEMENT OF CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998**

	<b>Social Security Equivalent Benefit Account</b>	<b>Railroad Retirement Account</b>	<b>Railroad Retirement Supplemental Account</b>	<b>Limitation On Administration</b>	<b>Dual Benefits Payments Account</b>	<b>Federal Payments to Railroad Retirement Accounts</b>	<b>Combined Totals</b>
Net Cost of Operations	<u>(\$5,344,992,981)</u>	<u>(\$2,876,561,691)</u>	<u>(\$78,330,670)</u>	<u>(\$96,941,853)</u>	<u>(\$200,904,089)</u>	<u>(\$254,134,423)</u>	<u>(\$8,851,865,707)</u>
Financing Sources:							
Appropriations Used	0	0	0	0	188,899,484	50,000	188,949,484
Taxes and Other Non-Exchange Revenues	2,109,994,534	2,741,221,934	122,846,284	0	12,000,000	254,000,000	5,240,062,752
Imputed Financing	0	0	0	7,293,643	0	0	7,293,643
Transfers-in	3,910,228,346	1,100,984,771	2,132,560	87,228,000	4,605	0	5,100,578,282
Transfers-out	<u>(469,066,657)</u>	<u>(52,695,303)</u>	<u>(3,415,194)</u>	<u>(1,720,695)</u>	<u>0</u>	<u>(4,605)</u>	<u>(526,902,454)</u>
Total Financing Sources	<u>5,551,156,223</u>	<u>3,789,511,402</u>	<u>121,563,650</u>	<u>92,800,948</u>	<u>200,904,089</u>	<u>254,045,395</u>	<u>10,009,981,707</u>
Net Results (Deficit) of Operations	206,163,242	912,949,711	43,232,980	(4,140,905)	0	(89,028)	1,158,116,000
Prior Period Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>(931,576)</u>	<u>0</u>	<u>0</u>	<u>(931,576)</u>
Net Change in Cumulative Results of Operations	206,163,242	912,949,711	43,232,980	(5,072,481)	0	(89,028)	1,157,184,424
Increase (Decrease) in Unexpended Appropriations	<u>0</u>	<u>0</u>	<u>0</u>		<u>(280,561)</u>	<u>(351,601)</u>	<u>(632,162)</u>
Change in Net Position	206,163,242	912,949,711	43,232,980	(5,072,481)	(280,561)	(440,629)	1,156,552,262
Net Position - Beginning of Period	<u>1,580,307,539</u>	<u>13,696,522,669</u>	<u>774,316</u>	<u>16,586,226</u>	<u>27,040,562</u>	<u>932,687</u>	<u>15,322,163,999</u>
Net Position - End of Period	<u>\$1,786,470,781</u>	<u>\$14,609,472,380</u>	<u>\$44,007,296</u>	<u>\$11,513,745</u>	<u>\$26,760,001</u>	<u>\$492,058</u>	<u>\$16,478,716,261</u>



**RAILROAD RETIREMENT BOARD  
RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM  
COMBINING BALANCE SHEET  
AS OF SEPTEMBER 30, 1998**

	<b>RAILROAD UNEMPLOYMENT INSURANCE TRUST FUND, BENEFIT PAYMENTS</b>	<b>RAILROAD UNEMPLOYMENT INSURANCE TRUST FUND, ADMINISTRATIVE EXPENSES</b>	<b>REGIONAL RAIL PROTECTIVE ACCOUNT</b>	<b>COMBINED TOTALS</b>
<b>ASSETS</b>				
Intragovernmental Assets:				
Fund Balance with Treasury	\$66,611,193	\$7,848,859	\$5,247	\$74,465,299
Total Intragovernmental	66,611,193	7,848,859	5,247	74,465,299
Accounts Receivable, Net	10,349,543	0	0	10,349,543
Other Assets	21,321,000	4,620,000	11,725	25,952,725
<b>TOTAL ASSETS</b>	<b>\$98,281,736</b>	<b>\$12,468,859</b>	<b>\$16,972</b>	<b>\$110,767,567</b>
<b>LIABILITIES</b>				
Liabilities Covered By Budgetary Resources:				
Intragovernmental Liabilities:				
Accounts Payable	\$832,924	\$575,280	\$16,972	\$1,425,176
Total Intragovernmental	832,924	575,280	16,972	1,425,176
Accounts Payable	0	39,777	0	39,777
Other Governmental Liabilities	6,802,533	0	0	6,802,533
Total Liabilities Covered By Budgetary Resources	7,635,457	615,057	16,972	8,267,486
Liabilities Not Covered By Budgetary Resources:				
Other Governmental Liabilities	0	0	0	0
Total Liabilities Not Covered By Budgetary Resources	0	0	0	0
Total Liabilities	7,635,457	615,057	16,972	8,267,486
<b>NET POSITION</b>				
Cumulative Results of Operations	90,646,279	11,853,802	0	102,500,081
Total Net Position	90,646,279	11,853,802	0	102,500,081
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$98,281,736</b>	<b>\$12,468,859</b>	<b>\$16,972</b>	<b>\$110,767,567</b>

RAILROAD RETIREMENT BOARD  
RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM  
COMBINING STATEMENT OF NET COST  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

	Railroad Unemployment Insurance Trust Fund, Benefit Payments	Railroad Unemployment Insurance Trust Fund, Administrative Expenses	Regional Rail Protective Account	Combined Totals
COSTS				
INTRAGOVERNMENTAL				
Salaries and Expenses	\$0	\$105,866	\$0	\$105,866
	0	105,866	0	105,866
PUBLIC				
Benefit Payments - RRB	59,189,311	0	0	59,189,311
Salaries and Expenses	2,981	10,837	0	13,818
	59,192,292	10,837	0	59,203,129
Total Costs	59,192,292	116,703	0	59,308,995
EARNED REVENUES				
Reimbursement from HCFA	0	0	0	0
NET PROGRAM COSTS	59,192,292	116,703	0	59,308,995
Less Earned Revenues Not Assigned to Programs	2,987	(1)	0	2,986
NET COST OF OPERATIONS	\$59,189,305	\$116,704	\$0	\$59,306,009

**RAILROAD RETIREMENT BOARD  
RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM  
COMBINING STATEMENT OF CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998**

	<b>Railroad Unemployment Insurance Trust Fund, Benefit Payments</b>	<b>Railroad Unemployment Insurance Trust Fund, Administrative Expenses</b>	<b>Regional Rail Protective Account</b>	<b>Combined Totals</b>
Net Cost of Operations	<u>(\$59,189,305)</u>	<u>(\$116,704)</u>	<u>\$0</u>	<u>(\$59,306,009)</u>
Financing Sources:				
Taxes and Other Non-Exchange Revenues	68,193,240	18,994,468	0	87,187,708
Transfers-in	7,230,938	422,972	0	7,653,910
Transfers-out	<u>(1,275,000)</u>	<u>(16,771,070)</u>	<u>0</u>	<u>(18,046,070)</u>
Total Financing Sources	<u>74,149,178</u>	<u>2,646,370</u>	<u>0</u>	<u>76,795,548</u>
Net Results (Deficit) of Operations	14,959,873	2,529,666	0	17,489,539
Prior Period Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Cumulative Results of Operations	14,959,873	2,529,666	0	17,489,539
Increase (Decrease) in Unexpended Appropriations	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Position	14,959,873	2,529,666	0	17,489,539
Net Position - Beginning of Period	<u>75,686,406</u>	<u>9,324,136</u>	<u>0</u>	<u>85,010,542</u>
Net Position - End of Period	<u><u>\$90,646,279</u></u>	<u><u>\$11,853,802</u></u>	<u><u>\$0</u></u>	<u><u>\$102,500,081</u></u>

RAILROAD RETIREMENT BOARD  
DEPOSIT AND OTHER FUNDS  
COMBINING BALANCE SHEET  
AS OF SEPTEMBER 30, 1998

	Limitation on The Office of Inspector General	Special Management Improvement Fund	City And State Taxes	Savings Bonds Allotment	Suspense Deposits	Combined Totals
<b>ASSETS</b>						
<b>Intragovernmental Assets:</b>						
Fund Balance with Treasury	\$321,228	\$52,765	\$11,746	\$10,064	\$27,584	\$423,387
Accounts Receivable	3,658,100	50,600	0	0	0	3,708,700
<b>Total Intragovernmental</b>	<b>3,979,328</b>	<b>103,365</b>	<b>11,746</b>	<b>10,064</b>	<b>27,584</b>	<b>4,132,087</b>
Property and Equipment, Net	8,010	0	0	0	0	8,010
<b>TOTAL ASSETS</b>	<b>\$3,987,338</b>	<b>\$103,365</b>	<b>\$11,746</b>	<b>\$10,064</b>	<b>\$27,584</b>	<b>\$4,140,097</b>
<b>LIABILITIES</b>						
<b>Liabilities Covered By Budgetary Resources:</b>						
<b>Intragovernmental Liabilities:</b>						
Accounts Payable	\$0	\$0	\$0	\$0	\$0	\$0
Other Intragovernmental Liabilities	52,359	0	0	10,064	(6,068)	56,355
<b>Total Intragovernmental</b>	<b>52,359</b>	<b>0</b>	<b>0</b>	<b>10,064</b>	<b>(6,068)</b>	<b>56,355</b>
Accounts Payable	10,799	1,058	8,264	0	15,838	35,959
Other Governmental Liabilities	156,315	0	3,482	0	17,814	177,611
<b>Total Liabilities Covered By Budgetary Resources</b>	<b>219,473</b>	<b>1,058</b>	<b>11,746</b>	<b>10,064</b>	<b>27,584</b>	<b>269,925</b>
<b>Liabilities Not Covered By Budgetary Resources:</b>						
Other Governmental Liabilities	233,311	0	0	0	0	233,311
<b>Total Liabilities Not Covered By Budgetary Resources</b>	<b>233,311</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>233,311</b>
<b>Total Liabilities</b>	<b>452,784</b>	<b>1,058</b>	<b>11,746</b>	<b>10,064</b>	<b>27,584</b>	<b>503,236</b>
<b>NET POSITION</b>						
Cumulative Results of Operations	3,534,554	102,307	0	0	0	3,636,861
<b>Total Net Position</b>	<b>3,534,554</b>	<b>102,307</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,636,861</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$3,987,338</b>	<b>\$103,365</b>	<b>\$11,746</b>	<b>\$10,064</b>	<b>\$27,584</b>	<b>\$4,140,097</b>

RAILROAD RETIREMENT BOARD  
DEPOSIT AND OTHER FUNDS  
COMBINING STATEMENT OF NET COST  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

	Limitation on The Office of Inspector General	Special Management Improvement Fund	City And State Taxes	Savings Bonds Allotment	Suspense Deposits	Combined Totals
<b>COSTS</b>						
<b>INTRAGOVERNMENTAL</b>						
Salaries and Expenses	\$1,250,609	\$0	\$0	\$0	\$0	\$1,250,609
	1,250,609	0	0	0	0	1,250,609
<b>PUBLIC</b>						
Salaries and Expenses	4,078,479	0	0	0	0	4,078,479
	4,078,479	0	0	0	0	4,078,479
<b>Total Costs</b>	<b>5,329,088</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,329,088</b>
<b>EARNED REVENUES</b>						
Reimbursement from HCFA	0	0	0	0	0	0
<b>NET PROGRAM COSTS</b>	<b>5,329,088</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,329,088</b>
<b>COST NOT ASSIGNED TO PROGRAMS</b>						
Other Expenses - Federal Employee Benefits	324,781	0	0	0	0	324,781
<b>NET COST OF OPERATIONS</b>	<b>\$5,653,869</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,653,869</b>

RAILROAD RETIREMENT BOARD  
DEPOSIT AND OTHER FUNDS  
COMBINING STATEMENT OF CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

	Limitation on The Office of Inspector General	Special Management Improvement Fund	City And State Taxes	Savings Bonds Allotment	Suspense Deposits	Combined Totals
<b>Net Cost of Operations</b>	<b>(\$5,653,869)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$5,653,869)</b>
<b>Financing Sources:</b>						
Taxes and Other Non-Exchange Revenues	0	0	0	0	0	0
Imputed Financing	324,781	0	0	0	0	324,781
Transfers-in	5,794,000	0	0	0	0	5,794,000
Transfers-out	(937,091)	(60,158)	0	0	0	(997,249)
<b>Total Financing Sources</b>	<b>5,181,690</b>	<b>(60,158)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,121,532</b>
<b>Net Results (Deficit) of Operations</b>	<b>(472,179)</b>	<b>(60,158)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(532,337)</b>
Prior Period Adjustments	0	0	0	0	0	0
<b>Net Change in Cumulative Results of Operations</b>	<b>(472,179)</b>	<b>(60,158)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(532,337)</b>
Increase (Decrease) in Unexpended Appropriations	0	0	0			
<b>Change in Net Position</b>	<b>(472,179)</b>	<b>(60,158)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(532,337)</b>
<b>Net Position - Beginning of Period</b>	<b>4,006,733</b>	<b>162,465</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,169,198</b>
<b>Net Position - End of Period</b>	<b>\$3,534,554</b>	<b>\$102,307</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,636,861</b>

**RAILROAD RETIREMENT BOARD  
CONSOLIDATING BALANCE SHEET  
AS OF SEPTEMBER 30, 1998**

	<b>Railroad Retirement Program</b>	<b>Railroad Unemployment And Sickness Insurance Program</b>	<b>Deposit And Other Funds</b>	<b>Combined Total</b>	<b>Inter-fund Eliminations</b>	<b>Consolidated Totals</b>
<b>ASSETS</b>						
<b>Intragovernmental Assets:</b>						
Fund Balance with Treasury	\$27,790,468	\$74,465,299	\$423,387	\$102,679,154	\$0	\$102,679,154
Investments	16,783,491,448	0	0	16,783,491,448	0	16,783,491,448
Accounts Receivable	3,900,307,926	0	3,708,700	3,904,016,626	(107,778,281)	3,796,238,345
<b>Total Intragovernmental</b>	20,711,589,842	74,465,299	4,132,087	20,790,187,228	(107,778,281)	20,682,408,947
Accounts Receivable, Net	31,209,891	10,349,543	0	41,559,434	0	41,559,434
Operating Materials and Supplies	267,451	0	0	267,451	0	267,451
Property and Equipment	7,312,313	0	8,010	7,320,323	0	7,320,323
Other Assets	938	25,952,725	0	25,953,663	0	25,953,663
<b>TOTAL ASSETS</b>	<b>\$20,750,380,435</b>	<b>\$110,767,567</b>	<b>\$4,140,097</b>	<b>\$20,865,288,099</b>	<b>(\$107,778,281)</b>	<b>\$20,757,509,818</b>
<b>LIABILITIES</b>						
<b>Liabilities Covered By Budgetary Resources:</b>						
<b>Intragovernmental Liabilities:</b>						
Accounts Payable	\$605,161,926	\$1,425,176	\$0	\$606,587,102	(\$107,778,281)	\$498,808,821
Other Intragovernmental Liabilities	711,098	0	56,355	767,453	0	767,453
<b>Total Intragovernmental</b>	605,873,024	1,425,176	56,355	607,354,555	(107,778,281)	499,576,274
Accounts Payable	925,583	39,777	35,959	1,001,319	0	1,001,319
Other Governmental Liabilities	697,703,809	6,802,533	177,611	704,683,953	0	704,683,953
<b>Total Liabilities Covered By Budgetary Resources</b>	<b>1,304,502,416</b>	<b>8,267,486</b>	<b>269,925</b>	<b>1,313,039,827</b>	<b>(107,778,281)</b>	<b>1,205,261,546</b>

RAILROAD RETIREMENT BOARD  
CONSOLIDATING BALANCE SHEET - CON'T.  
AS OF SEPTEMBER 30, 1998

	Railroad Retirement Program	Railroad Unemployment And Sickness Insurance Program	Deposit And Other Funds	Combined Total	Inter-fund Eliminations	Consolidated Totals
<b>Liabilities Not Covered By Budgetary Resources:</b>						
<b>Intragovernmental Liabilities:</b>						
Debt	2,962,134,660	0	0	2,962,134,660	0	2,962,134,660
<b>Total Intragovernmental</b>	2,962,134,660	0	0	2,962,134,660	0	2,962,134,660
Other Governmental Liabilities	5,027,098	0	233,311	5,260,409	0	5,260,409
<b>Total Liabilities Not Covered By Budgetary Resources</b>	<b>2,967,161,758</b>	<b>0</b>	<b>233,311</b>	<b>2,967,395,069</b>	<b>0</b>	<b>2,967,395,069</b>
<b>Total Liabilities</b>	<b>4,271,664,174</b>	<b>8,267,486</b>	<b>503,236</b>	<b>4,280,434,896</b>	<b>(107,778,281)</b>	<b>4,172,656,615</b>
<b>NET POSITION</b>						
Unexpended Appropriations	27,252,059	0	0	27,252,059	0	27,252,059
Cumulative Results of Operations	16,451,464,202	102,500,081	3,636,861	16,557,601,144	0	16,557,601,144
<b>Total Net Position</b>	<b>16,478,716,261</b>	<b>102,500,081</b>	<b>3,636,861</b>	<b>16,584,853,203</b>	<b>0</b>	<b>16,584,853,203</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$20,750,380,435</b>	<b>\$110,767,567</b>	<b>\$4,140,097</b>	<b>\$20,865,288,099</b>	<b>(\$107,778,281)</b>	<b>\$20,757,509,818</b>



**RAILROAD RETIREMENT BOARD  
CONSOLIDATING STATEMENT OF NET COST  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998**

	<b>Railroad Retirement Program</b>	<b>Railroad Unemployment And Sickness Insurance Program</b>	<b>Deposit And Other Funds</b>	<b>Combined Total</b>	<b>Inter-fund Eliminations</b>	<b>Consolidated Totals</b>
<b>COSTS</b>						
<b>INTRAGOVERNMENTAL</b>						
Interest Expense - Treasury Borrowing	\$243,862,922	\$0	\$0	\$243,862,922	\$0	\$243,862,922
Transfers-out	254,134,423	0	0	254,134,423	(254,134,423)	0
Salaries and Expenses	22,368,572	105,866	1,250,609	23,725,047	(372,705)	23,352,342
	<u>520,365,917</u>	<u>105,866</u>	<u>1,250,609</u>	<u>521,722,392</u>	<u>(254,507,128)</u>	<u>267,215,264</u>
<b>PUBLIC</b>						
Benefit Payments - RRB	8,256,926,610	59,189,311	0	8,316,115,921	0	8,316,115,921
Salaries and Expenses	71,663,567	13,818	4,078,479	75,755,864	0	75,755,864
	<u>8,328,590,177</u>	<u>59,203,129</u>	<u>4,078,479</u>	<u>8,391,871,785</u>	<u>0</u>	<u>8,391,871,785</u>
<b>Total Costs</b>	<b>8,848,956,094</b>	<b>59,308,995</b>	<b>5,329,088</b>	<b>8,913,594,177</b>	<b>(254,507,128)</b>	<b>8,659,087,049</b>
<b>EARNED REVENUES</b>						
Reimbursement from HCFA	4,341,467	0	0	4,341,467	(372,705)	3,968,762
	<u>4,341,467</u>	<u>0</u>	<u>0</u>	<u>4,341,467</u>	<u>(372,705)</u>	<u>3,968,762</u>
<b>NET PROGRAM COSTS</b>	<b>8,844,614,627</b>	<b>59,308,995</b>	<b>5,329,088</b>	<b>8,909,252,710</b>	<b>(254,134,423)</b>	<b>8,655,118,287</b>
<b>COST NOT ASSIGNED TO PROGRAMS</b>						
Other Expenses - Federal Employee Benefits	7,316,586	0	324,781	7,641,367	0	7,641,367
Less Earned Revenues Not Assigned to Programs	65,506	2,986	0	68,492	0	68,492
	<u>65,506</u>	<u>2,986</u>	<u>0</u>	<u>68,492</u>	<u>0</u>	<u>68,492</u>
<b>NET COST OF OPERATIONS</b>	<b><u>\$8,851,865,707</u></b>	<b><u>\$59,306,009</u></b>	<b><u>\$5,653,869</u></b>	<b><u>\$8,916,825,585</u></b>	<b><u>(\$254,134,423)</u></b>	<b><u>\$8,662,691,162</u></b>

**RAILROAD RETIREMENT BOARD  
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998**

	<b>Railroad Retirement Program</b>	<b>Railroad Unemployment And Sickness Insurance Program</b>	<b>Deposit And Other Funds</b>	<b>Combined Total</b>	<b>Inter-fund Eliminations</b>	<b>Consolidated Total</b>
<b>Net Cost of Operations</b>	<b><u>(\$8,851,865,707)</u></b>	<b><u>(\$59,306,009)</u></b>	<b><u>(\$5,653,869)</u></b>	<b><u>(\$8,916,825,585)</u></b>	<b><u>\$254,134,423</u></b>	<b><u>(\$8,662,691,162)</u></b>
<b>Financing Sources:</b>						
Appropriations Used	188,949,484	0	0	188,949,484	0	188,949,484
Taxes and Other Non-Exchange Revenues	5,240,062,752	87,187,708	0	5,327,250,460	(254,000,000)	5,073,250,460
Imputed Financing	7,293,643	0	324,781	7,618,424	0	7,618,424
Transfers-in	5,100,578,282	7,653,910	5,794,000	5,114,026,192	(113,855,796)	5,000,170,396
Transfers-out	<u>(526,902,454)</u>	<u>(18,046,070)</u>	<u>(997,249)</u>	<u>(545,945,773)</u>	<u>113,721,373</u>	<u>(432,224,400)</u>
<b>Total Financing Sources</b>	<b><u>10,009,981,707</u></b>	<b><u>76,795,548</u></b>	<b><u>5,121,532</u></b>	<b><u>10,091,898,787</u></b>	<b><u>(254,134,423)</u></b>	<b><u>9,837,764,364</u></b>
<b>Net Results (Deficit) of Operations</b>	<b><u>1,158,116,000</u></b>	<b><u>17,489,539</u></b>	<b><u>(532,337)</u></b>	<b><u>1,175,073,202</u></b>	<b><u>0</u></b>	<b><u>1,175,073,202</u></b>
Prior Period Adjustments	<u>(931,576)</u>	<u>0</u>	<u>0</u>	<u>(931,576)</u>	<u>0</u>	<u>(931,576)</u>
<b>Net Change in Cumulative Results of Operations</b>	<b><u>1,157,184,424</u></b>	<b><u>17,489,539</u></b>	<b><u>(532,337)</u></b>	<b><u>1,174,141,626</u></b>	<b><u>0</u></b>	<b><u>1,174,141,626</u></b>
Increase (Decrease) in Unexpended Appropriations	<u>(632,162)</u>	<u>0</u>	<u>0</u>	<u>(632,162)</u>	<u>0</u>	<u>(632,162)</u>
<b>Change in Net Position</b>	<b><u>1,156,552,262</u></b>	<b><u>17,489,539</u></b>	<b><u>(532,337)</u></b>	<b><u>1,173,509,464</u></b>	<b><u>0</u></b>	<b><u>1,173,509,464</u></b>
<b>Net Position - Beginning of Period</b>	<b><u>15,322,163,999</u></b>	<b><u>85,010,542</u></b>	<b><u>4,169,198</u></b>	<b><u>15,411,343,739</u></b>	<b><u>0</u></b>	<b><u>15,411,343,739</u></b>
<b>Net Position - End of Period</b>	<b><u>\$16,478,716,261</u></b>	<b><u>\$102,500,081</u></b>	<b><u>\$3,636,861</u></b>	<b><u>\$16,584,853,203</u></b>	<b><u>\$0</u></b>	<b><u>\$16,584,853,203</u></b>

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED SCHEDULE OF SALARIES AND EXPENSES, AND BENEFIT PAYMENTS  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

<b>Description</b>	<b>Budget Object Code</b>	<b>1998</b>	<b>1997</b>
<b>SALARIES AND EXPENSES:</b>			
<b>PERSONNEL COMPENSATION AND BENEFITS:</b>			
<b>Personnel compensation:</b>			
Full-time salary	111	\$62,161,417	\$62,389,750
Other than full-time salary	113	1,427,599	1,349,558
Other personnel compensation	115	875,028	417,038
Overtime pay	118	317,182	253,314
		<b>64,781,226</b>	<b>64,409,660</b>
<b>Personnel benefits:</b>			
Civilian personnel benefits	121	12,739,086	12,317,215
Change of station	126	124,885	229,979
		<b>12,863,971</b>	<b>12,547,194</b>
<b>Benefits for former personnel</b>	131	<b>1,085,688</b>	<b>1,946,499</b>
<b>TOTAL PERSONNEL COMPENSATION AND BENEFITS</b>		<b>78,730,885</b>	<b>78,903,353</b>
<b>TRAVEL AND TRANSPORTATION:</b>			
Travel and transportation of person	211	849,109	911,064
Transportation of things	221	152,264	166,564
<b>TOTAL TRAVEL AND TRANSPORTATION</b>		<b>1,001,373</b>	<b>1,077,628</b>
<b>RENT, COMMUNICATIONS AND UTILITIES:</b>			
Rental payments to GSA	231	3,128,129	2,946,753
Rental payments to others	232	995	103
Rent of Equipment	233	431,509	419,561
Postage	234	1,024,668	1,050,980
Utilities	235	585,814	630,728
Communications	236	1,220,459	1,208,866
		<b>6,391,574</b>	<b>6,256,991</b>
<b>PRINTING AND REPRODUCTION</b>	241	<b>397,258</b>	<b>391,728</b>
<b>OTHER SERVICES:</b>			
Consulting services	251	465,116	401,468
Government contracts	252	1,705,209	1,833,361
All other services	253	529,194	500,095
Repairs and maintenance	254	901,510	934,081
Storage	255	5,471	27,598
Medical fees	256	1,787,738	1,693,402

**RAILROAD RETIREMENT BOARD**  
**CONSOLIDATED SCHEDULE OF SALARIES AND EXPENSES, AND BENEFIT PAYMENTS - CON'T.**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30,**

	Budget Object Code	1998	1997
Training	257	247,377	235,542
Operation and maintenance of facilities	258	1,414,545	1,351,001
Other contracts over \$9,999	259	640,182	695,252
		<b>7,696,342</b>	<b>7,671,800</b>
<b>SUPPLIES AND MATERIALS:</b>			
Supplies and materials	261	949,179	1,509,051
Subscriptions and publications	262	146,370	158,273
Stock account	263	403,642	409,427
		<b>1,499,191</b>	<b>2,076,751</b>
<b>EQUIPMENT:</b>			
Equipment over \$500	311	1,491,049	1,380,814
Equipment over \$4,999	312	221,885	761,049
		<b>1,712,934</b>	<b>2,141,863</b>
<b>INTEREST AND DIVIDENDS</b>	431	<b>(210)</b>	<b>(2,100)</b>
<b>UNFUNDED ANNUAL LEAVE</b>	---	<b>(31,203)</b>	<b>(294,389)</b>
<b>DEPRECIATION AND AMORTIZATION</b>	---	<b>3,309,037</b>	<b>3,532,980</b>
<b>TOTAL</b>		<b>100,707,181</b>	<b>101,756,605</b>
<b>CHARGED TO CAPITAL EXPENDITURES</b>		<b>(1,226,270)</b>	<b>(2,286,154)</b>
<b>COMBINED TOTAL SALARIES AND EXPENSES - Intragovernmental and Public</b>		<b>99,480,911</b>	<b>99,470,451</b>
<b>Inter-fund elimination</b>		<b>(372,705)</b>	<b>0</b>
<b>CONSOLIDATED TOTAL SALARIES AND EXPENSES - Intragovernmental and Public</b>		<b>\$99,108,206</b>	<b>\$99,470,451</b>
<b>BENEFIT PAYMENTS - RRB:</b>			
GRANTS, SUBSIDIES AND CONTRIBUTIONS	410	\$200,904,089	\$216,364,879
BAD DEBTS	420	5,613,964	7,162,306
INSURANCE, CLAIMS AND INDEMNITIES	420	8,109,597,868	8,066,977,545
<b>TOTAL BENEFIT PAYMENTS - RRB</b>		<b>\$8,316,115,921</b>	<b>\$8,290,504,730</b>
<b>INTEREST EXPENSE</b>	431	<b>\$243,862,922</b>	<b>\$244,576,712</b>
<b>TOTAL COSTS</b>		<b>\$8,659,087,049</b>	<b>\$8,634,551,893</b>



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